

INVESTOR'S GUIDE 2009



# Breakthrough Towards the New Frontier

Retail Banking Online Systems

System Solutions

Security Systems

# Driven Toward Global Growth Underpinned by our IT Solution and a Solid Customer Base

Intelligent Wave was launched in December 1984 as an independent software company with a flexible approach to system integration. Being one of the first to recognize that 24/7 credit card networks would become an extremely important infrastructure in meeting the needs of individual consumption, we developed Japan's first credit card processing system package, NET+1, which was adopted by a series of major domestic credit card companies, resulting in the 70% market share we enjoy today.

Based on our accumulated information technologies, in particular in relation to credit management and processing transactions linked to credit cards and cash cards, and on the strong relationships of trust we have built with our clients, we are now expanding our business by developing and offering systems and services that enhance our clients' efficiency and information security.

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## Forward looking statements

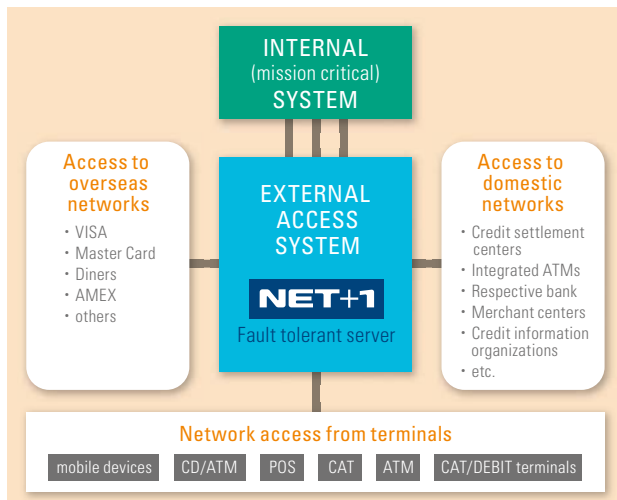
Statements about our forecasts, strategies, management policies and objectives contained in this report that are not based on historical facts constitute forward-looking statements. These statements are strictly based on management's assumptions, plans, expectations and judgments in light of information currently available. These forward-looking statements, facts and assumptions are subject to a variety of risks and uncertainties. Therefore, actual results may differ materially from forecasts.

# 1 Overwhelming Share

NET+1 is a credit card network access system which is used by an overwhelming share (roughly 70 percent) of major credit card issuers in Japan, making it the de facto industry standard.

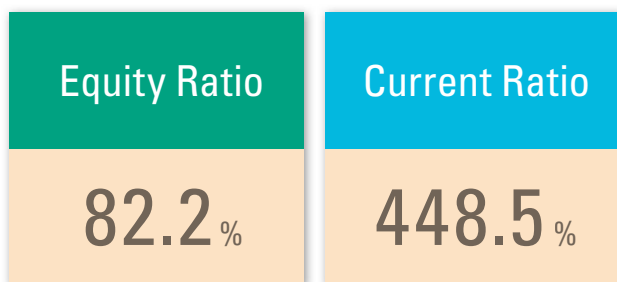
Note: Credit card systems can be broadly classified into external access systems and internal (mission critical) systems. We specialize in external access systems, often referred to as the "front-end."

## Credit Card Systems Configuration (credit card issuers, banks)



# 3 Rock-solid, Debt-free Financial Grounding

A stable financial grounding with no interest-bearing debt has allowed us to establish a business foundation geared toward growth, even during difficult economic conditions

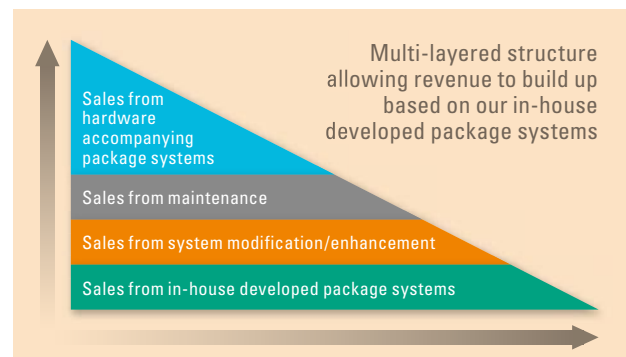


For the year ended June 2009

# 2 Achieving Profitability through the Golden Ratio between Product and Service

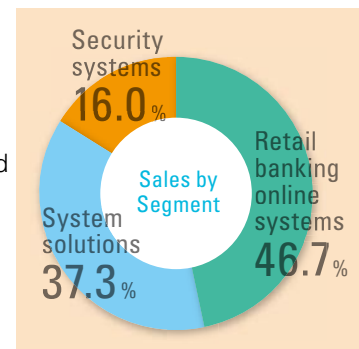
We have achieved the Hybrid business model, said to be the most profitable model in the software industry, with a revenue ratio of product to service of 2:8. Our business is also featured as "stock business," under which we accumulate profit by offering multiple services, including development and maintenance, based on our in-house developed package systems.

## Multi-Layered Revenue Structure



# 4 Three Business Segments Integrating Network Technology and Financial Systems

Our business expands from system integration for credit card processing and system solutions based on our knowledge and expertise in finance and securities to security system solutions.



## A Year Focused on Developing Our Base Transforming Ourselves

# “Toward Future Growth”



Kazuhiko Adachi  
Chairman



Yoshiyuki Yamamoto  
Representative Director  
and President

Intelligent Wave has reshaped our business from a low profitable and project-based “developed to order” model into a “stock business” model, under which services are stably offered based on our in-house developed package systems. This model has been established, making us competitive and leading us into a new business field, namely security system business, besides our existing businesses in the credit card, banking and securities industries.

The Japanese credit card industry, which is our main business domain, is currently going through dramatic structural changes brought on by the economic downturn and legislative review\*.

We have viewed these changes as an opportunity for growth and have been working on transforming our revenue structure.

We are currently working to expand the scope of our business and develop a basis for future growth by applying our accumulated technologies and experience to various industrial sectors and operational categories.

\* The maximum interest rate was lowered under a revision of the Interest Rate Restriction Law. This led to a decline in profitability in the direct cash loan business which has greatly affected the performance of credit card companies, putting them under pressure to transform their revenue structure.

### MARKET TREND

## Structural Changes Bring New Demand for Renewed IT Spending

Structural changes in the credit card industry are expected to generate new demand for IT spending. As credit card companies watched their profitability in the direct cash loan business—their major revenue source—rapidly decline with the revision in the Interest Rate Restriction Law, they began to work on improving their revenue structure. This was achieved by strengthening profitability in new areas, such as bank agency services, online transactions and electronic money systems, which in turn has generated demand for investment in

related systems. At the same time, there also seems to be ongoing demand for investment in jointly managed data centers aimed at reducing system operation costs. We anticipate that both demands—for enhancing profitability and for reducing costs—will gradually become more apparent going forward.

In addition, the Payment Services Act introduced this June allows non-banking entities to offer overseas fund transfers for small amounts of funds, a service which had previously been limited to banks. This

means that we can expect systems demand related to business development by newcomers. In the security systems segment, although the market is still showing no signs of recovery following the deep recession of last year, demand for countermeasures to prevent leaks of

confidential information is strong in the manufacturing sector and we have seen business negotiations in this area beginning to start up again, leading us to expect a rebound in demand.

## BUSINESS PERFORMANCE

### Retail Banking Online Systems Business Hit Hard by the Recession

Amid adverse conditions, our retail banking online systems business enjoyed steady revenue from sales of our in-house developed package system NET+1 and related hardware and system maintenance. However, credit card companies drastically cut down on IT spending due to the rapid economic downturn and decline in personal spending that resulted from the global financial crisis. This led us to a significant decrease in system development revenue and ultimately resulted in a decrease in both revenue and income for this segment. In the system solutions segment securities firms provided strong demand for system development. In addition, good sales in our in-house developed package systems, such as the market data distribution system for securities trading and ACE Plus, a system for detecting fraudulent credit card use, as well as strong revenue from related maintenance, led to an increase both in revenue and income. In the security

systems business segment, steady growth in sales for security-related products, as well as in the number of maintenance sites for our product CWAT, led to a dramatic upturn in both revenue and income.

As a result of all of the above, our consolidated sales went down by 17.5% and consolidated operating income down by 45.3%, both strongly affected by the fall in both revenue and income in the retail banking online systems business segment, which accounts for the largest part of overall revenue. On the other hand, we achieved a turnaround that took us back into the black in terms of our net income by successfully keeping the number of non-profitable projects at zero thanks to all-out efforts in project management. We recorded no extraordinary losses related to the restructuring of the security system business, which was completed last year, and achieved gains from sales of investment securities.

## TOWARD FUTURE GROWTH

### Expansion of Service Areas through Proactive Proposals

#### Promotion of structural reform for future growth

For the past several years, we have been working on restructuring our business with a focus on enhancing our finances, organization and human resources. We are now in a position to leverage the opportunities offered by structural changes in the credit card industry.

By the end of the last fiscal year we had boosted our financial strength by liquidating our assets while managing to stay free of interest-bearing debt, which has enabled us to streamline our balance sheet. With

regard to organization, we have strengthened our management and marketing structure that are capable for the expansion of our business domain. In the area of human resources, we worked on developing a globally oriented team that can respond to system development and maintenance needs overseas through exchanges with our overseas affiliates and training. This has readied us for entry into new markets for our products, which we are developing using open source software.

### Cultivation of existing Japanese customer base and acquiring new customers in overseas markets

In spite of negative factors such as the decline in population, business activity is quite strong in the Japanese credit card market, with a growing number of settlement options arising out of advances in information technology. We expect to continue to receive a stable flow of orders of a certain volume for system development from credit card companies. Because credit card companies are temporarily cutting down on spending as they undertake reforms in their revenue structure, we intend to work on expanding the number of orders—including relatively small projects—and on enhancing sales activities targeting our existing customers by proposing services that would benefit

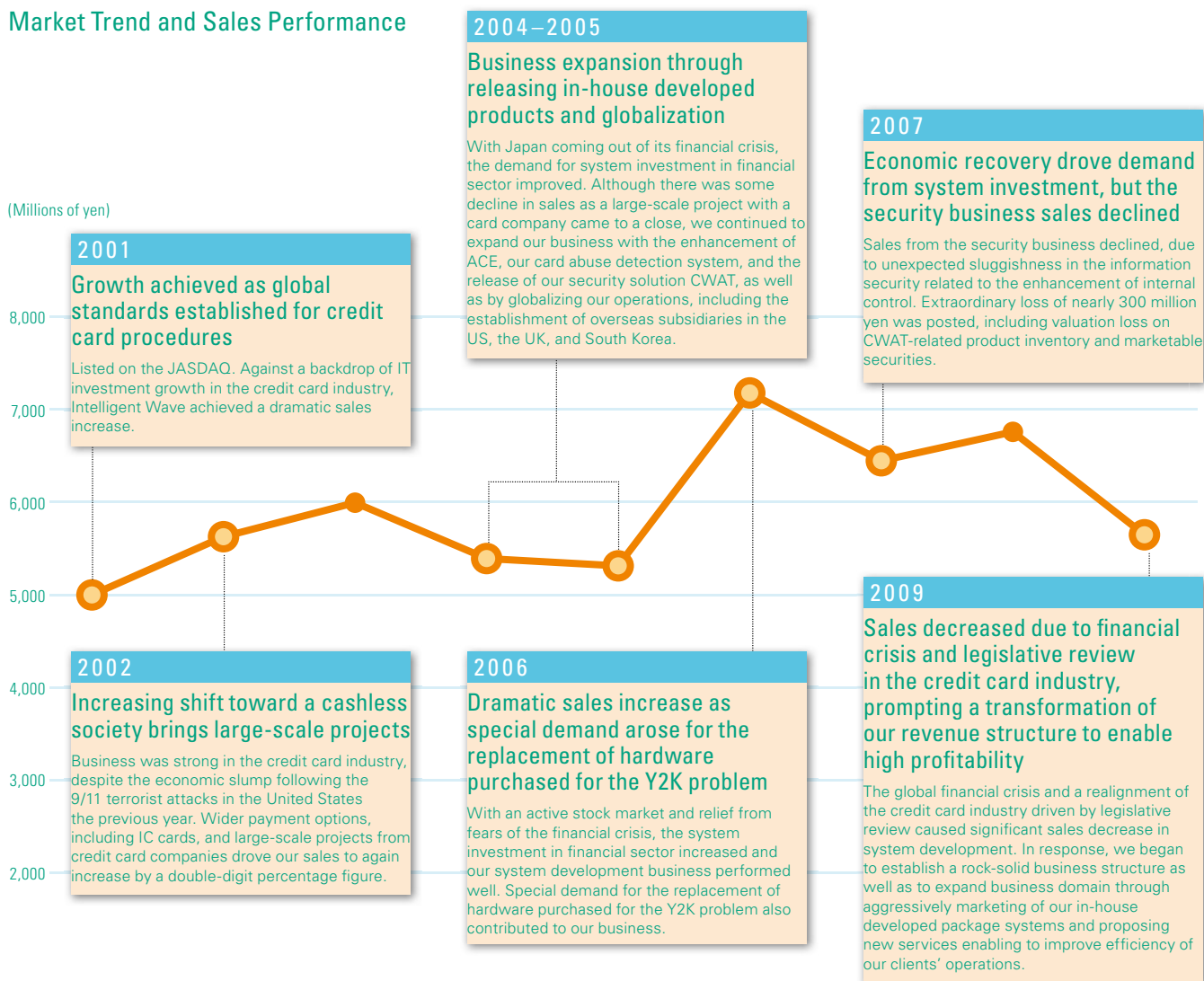
their operations, as well as actively responding to the outsourcing needs of new customers.

In overseas markets, we will make active efforts to acquire new customers. Through our subsidiaries we have already cultivated new sales channels for our security-related products in the United States and South Korea, and have established cooperative relationships with local business entities who can respond to local needs, including maintenance and operation, paving the way to full-fledged overseas operations in the future.

### Transformation into a “knowledge value creator”\*

To overcome the current tough business environment and take the next step toward becoming a global enterprise, it is essential that we transform ourselves

## Market Trend and Sales Performance



into a “knowledge value creator,” using our knowledge and experience to provide convenience for our customers and promote business innovation. To this end, we are actively developing and marketing our proprietary package solutions, which achieve high profitability and have greater flexibility in the development of new services. In addition, we are working toward developing services that provide our products with high added value by gaining business know-how through strategic alliances and M&As and aim to expand our business in credit and settlement operations in which credit cards, IC cards and electronic money are used.

Last October, in line with our overall policy, we acquired a stake in ODN Solution, a company with a successful track record in internal system (mission critical system) development and banking systems. With this capital and business alliance, we are now able to expand our operations to the entire card system, covering internal systems as well as the external access systems in which we specialize. We hope that this will also enable us to acquire operational know-how which we previously did not possess, which will boost our future services development. Furthermore, with the aim of expanding our customer base, we are set to release a new product called EUCSecure, which has limited features at a lower price and thereby complements our relatively higher priced line-up of security systems. As this product is compatible with systems developed by other companies, we are planning a wide variety of market strategies.

\* A company that achieves corporate growth by accumulating knowledge. It represents our future vision as a group aiming to achieve growth by means of linking accumulated knowledge and know-how to new services development.

## Toward Achieving Sustainable Growth

It is a widely held corporate principle that the fulfillment of responsibilities to all stakeholders is what makes sustainable growth possible. Recognizing customers, employees and shareholders as important stakeholders, we conduct our daily business activities based on four management principles: “To be a business entity that maintains stable and sustainable operations” “To be

a group that retains advanced engineers” “To be an organization that responds promptly and precisely to the rapidly changing needs of our customers” and “To assure and maintain external channels for a constant inflow of advanced technologies.”

We are committed to providing products and services that can directly contribute to our customer’s profits, such as increasing their profit-earning opportunities by proposing cost-cutting measures and new services. For our employees, in addition to providing a stable salary, we implement a performance-linked pay system that rewards contribution to encourage our employees to develop a proactive value-creation mindset, while also maintaining the trust of clients based on a long-term track record of responding to their expectations. For our shareholders, we are committed to maintaining dividends at a certain level, plus in the medium- to long-term, paying additional dividends in line with our growth. This year, we have been able to achieve a dividend payment of 500 yen per share.

## Opening up a New Frontier

Current business conditions give no cause for optimism. However, we are firm in our belief that our solid foundation in the Japanese domestic market provides us with a strong basis from which to approach the overseas market, a challenge that would bring us further growth. The sense of mission, of taking part in the provision of critical social infrastructure, along with our 20-year track record, underlies the confidence with which we engage in efforts to bring our products to overseas markets.

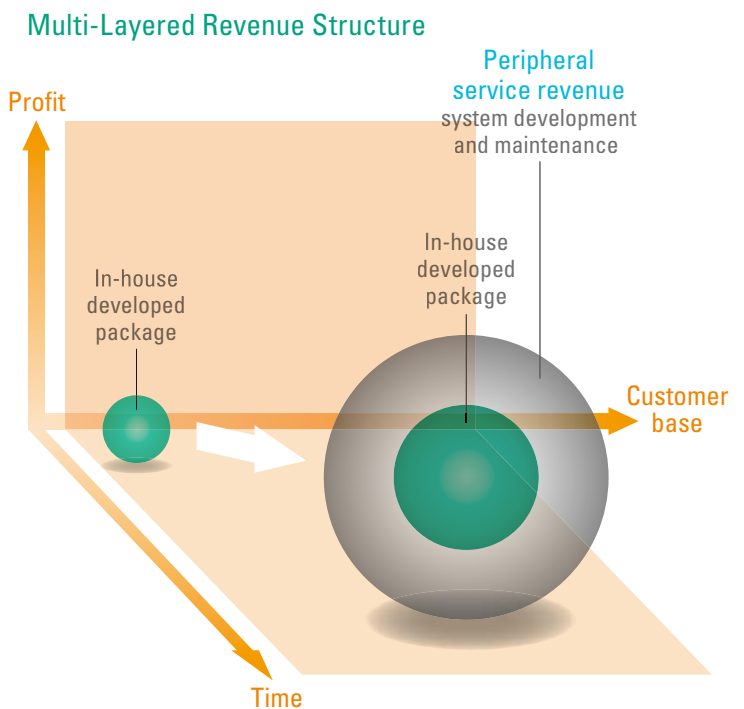
Intelligent Wave will continue to respond with flexibility to changes in technical innovation and, by maintaining our technological strength and capacity to submit compelling proposals, will continue our drive toward becoming a Japan-based software vendor servicing the global market.

1

## Securing Stable Revenue

“Stock business” (stable revenue) model with our in-house developed package systems at the center

We ensure stable revenues by placing our in-house developed package systems at the core of our business and then offering various related services, including system enhancement (development), maintenance, and provision of new/replacement servers. Order-based system development, responding to specific needs of one client, is a “flow business,” meaning that the business relationship may end with the completion of the project. On the other hand, providing a system based on package solutions we have developed ourselves allows us to re-utilize the system development because there is a certain level of generality in such models. In addition, we follow a “stock business” model under which a variety of revenue streams can be secured even after the system goes live. The fault tolerant server used for NET+1 is expensive because of its high tolerance for failure, but there will always be demand for such servers as the renewal cycle for systems is every few years. More recently, the trend has been to continue running the servers beyond their expected service life of roughly four to five years in order to cut costs, but as long as the servers are in operation, we can expect to receive revenues related to the maintenance revenue of NET+1.



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## Growing Revenues by Expanding Business Domain

Horizontal expansion in credit card operations and vertical expansion to mission critical business operations

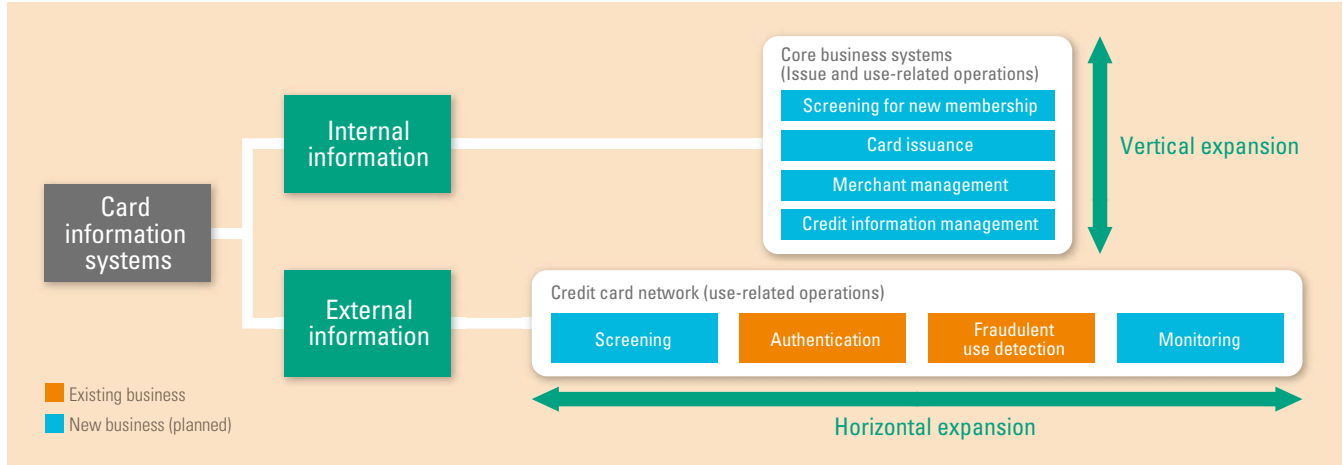
Credit card systems consist of “internal systems,” or the business systems of the client company, and “external information systems,” which are used to access credit information and credit card networks. Within the field of external information systems, we provide authentication functions for credit card use, as well as means of detecting fraudulent use.

Going forward, we will expand our business horizontally from authentication and fraudulent use detection to initial screening for new membership applications and monitoring for assessment of credit

card use and renewal, thus building a comprehensive credit card support system. In addition, we will achieve vertical expansion by developing services for customers to use within their own business operation systems, leading to their development of new business models and innovations.

Horizontal expansion is carried out by leveraging the resources we have accumulated over our history, while vertical expansion allows us to obtain new revenue streams through service development.

## Expanding the Scope of Credit Card Business by Horizontal and Vertical Expansions

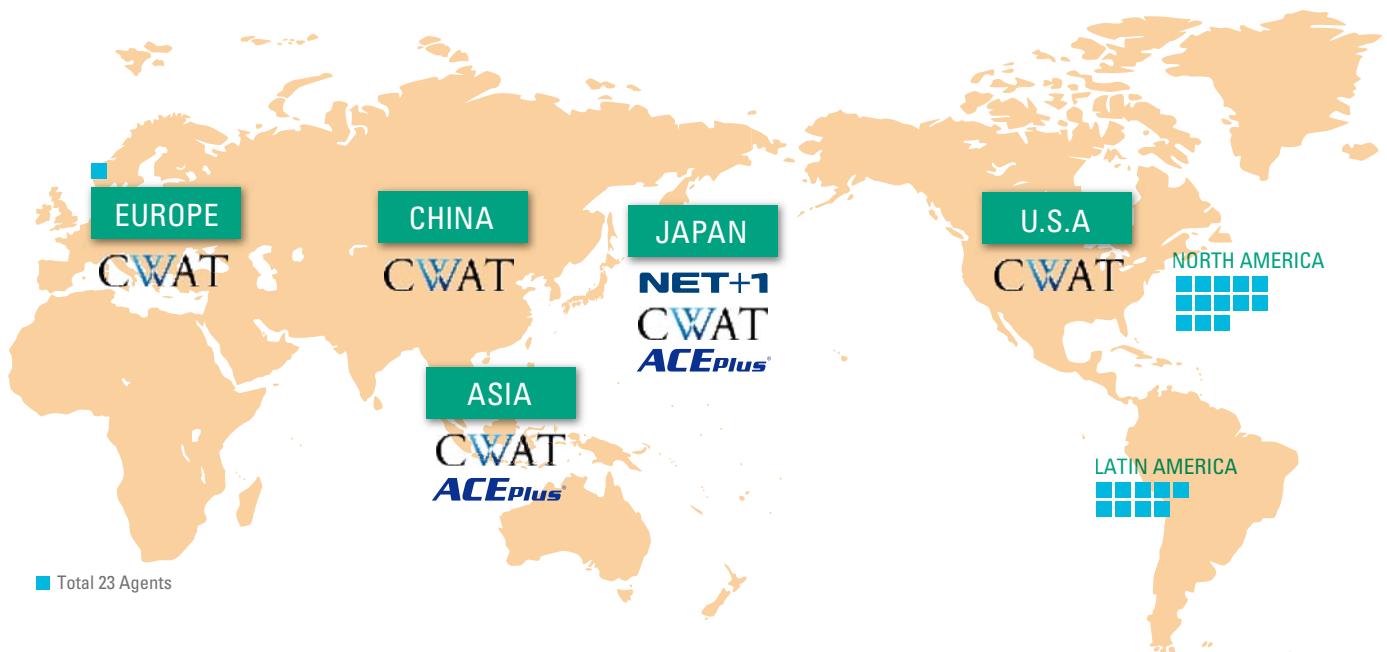


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## Global Roll-Out of Proprietary Products

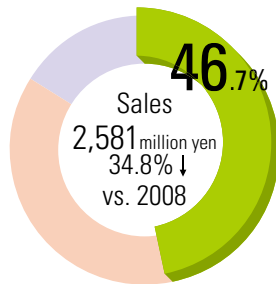
While it is important to secure a stable share of the domestic market, expanding our business overseas is essential to our growth. In relation to our credit card business, our activities will be centered on the fast-growing Asian region. In Southeast Asia, with the growth in credit card transactions has come an increase in card-related crimes, so there are more opportunities for our ACE Plus system for detecting

fraudulent use. We are working to build a sales system for ACE Plus, which already has a good track record of sales in the domestic market. As for the security business, we will establish a sales network for CWAT, a system for preventing information leaks, through sales representatives and alliances in other countries, with a focus on Europe and the United States.



## Business Segment Overview—At a Glance

### Retail Banking Online Systems



#### Business

Development and maintenance of 24/7 online network systems for credit card or cash card transactions and others. In-house developed product NET+1 provides functionality that includes network connection and authorization processing. Systems adopting it achieve high reliability.

#### Main Clients

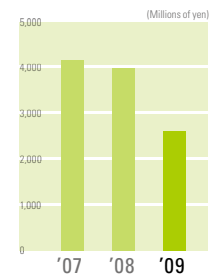
Credit card companies, banks, major retailers, etc.

#### Main Product

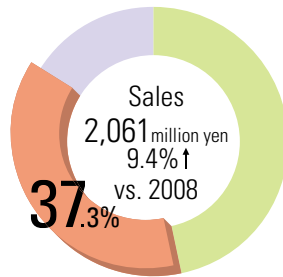
#### NET+1

Basic system package that provides online network connection for card transactions (connections between domestic/overseas networks and credit terminals, ATM and other terminals) and authorization process control.

#### Net Sales



### System Solutions



#### Business

Sales and maintenance service of in-house developed credit card abuse detection system, ACE Plus. Development, sales and maintenance of Market Data Distribution System for securities trading. System development and maintenance services for improving efficiency.

#### Main Clients

Credit card companies, securities companies

#### Main Products

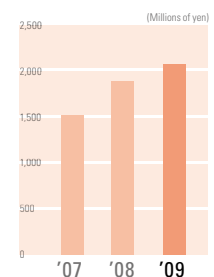
#### ACEplus

System that detects and alerts credit card abuse in real time. Used by credit card companies. Holds the biggest share of the Japanese market.

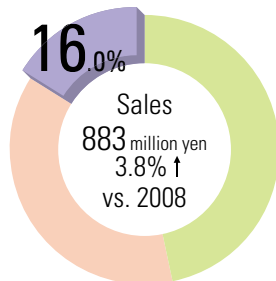
#### Market Data Distribution System

System package for securities companies that performs large-scale, high-speed information processing of securities trading.

#### Net Sales



### Security Systems



#### Business

Building and sales of information security systems based on in-house developed internal information leakage countermeasure system, CWAT; providing security services.

#### Main Clients

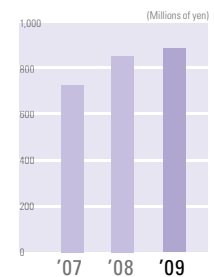
Wide range of businesses including those in the finance, manufacturing, telecommunications, retail, pharmaceuticals/chemicals, and public sectors.

#### Main Product

#### CWAT

Information leakage countermeasure system realizing total security, from prevention of information leakage to log management and tracking, with superb real-time quality.

#### Net Sales



### Consolidated sales by product category (Fiscal year ended June 30, 2009)

	Retail Banking Online Systems		System Solutions		Security Systems		Total	
	(¥ thousand)	YOY Changes (%)	(¥ thousand)	YOY Changes (%)	(¥ thousand)	YOY Changes (%)	(¥ thousand)	YOY Changes (%)
<b>System Development</b>	1,561,788	- 50.7	1,382,097	33.7	102,918	- 0.2	3,046,805	- 29.2
In-House Developed Packages	80,400	17.4	208,993	- 1.0	194,177	- 7.6	483,570	- 1.3
Non-In-House Developed Packages	0	-	201,206	- 16.9	154,554	17.6	355,760	- 4.8
Hardware	508,452	140.6	14,247	- 91.5	4,645	- 32.3	527,345	36.5
Consulting	0	-	11,760	0.0	0	-	11,760	- 48.3
Software Maintenance	404,424	8.9	235,456	18.8	419,449	6.7	1,059,329	10.0
In-House Developed ASP	14	- 97.2	7,939	- 59.9	8,212	21.6	16,166	- 40.3
Non-In-House Developed ASP	26,612	- 79.2	0	-	0	-	26,612	- 79.2
<b>Total</b>	<b>2,581,691</b>	<b>- 34.8</b>	<b>2,061,700</b>	<b>9.4</b>	<b>883,958</b>	<b>3.8</b>	<b>5,527,350</b>	<b>- 17.5</b>

# Reliable:

Building highly reliable network infrastructures



## Retail Banking Online Systems

### MARKET ENVIRONMENT

#### System investment in the credit card industry drops dramatically

Credit card companies are tending to restrict their systems investment due to the economic downturn. In addition, because they are placing higher priority on responding to revisions in the Money-Lending Business Control and Regulation Law and the Installment Sales Law (both scheduled to come into force by the end of 2010), full-scale system development, which come under our sales category of “system development,” has dropped dramatically. The credit card industry is currently undergoing a major structural change, the impacts of which we believe will continue to affect our business for the next year or two.

### BUSINESS PERFORMANCE

#### In-house developed packages and software maintenance remain strong, but outweighed by the significant drop in system development, resulting in a decline in both sales and income

In system development, we posted revenue received from credit card companies, banks, major retailers, and card business divisions of railroad companies, but cuts in system development budgets, driven by the difficult business conditions described above, caused overall sales in system development to drop by a significant 50.7%. On the other hand, sales climbed for our in-house developed package

NET+1, developed for major credit card companies and major system operation companies, as well as for hardware, such as our fault tolerant servers, by 17.4% and 140.6% respectively. Sales from software maintenance, mainly for existing clients, also grew steadily. However, these were not enough to cover the drop in system development, and as a result, the consolidated net sales and operating income of this business segment posted a year-on-year decline of 34.8% to 2,581 million yen and 41.3% to 754 million yen respectively.

### STRATEGY AND CHALLENGE

#### Expanding our business through information technology and existing customer base

The structural change in the credit card industry will create demand for improved system efficiencies, as well as for new system development to secure revenue sources in new business areas, such as bank agency services, online transactions, and electronic money. We are determined to ensure we take advantage of this opportunity, based on our accumulated information technologies, in particular in relation to credit management and processing transactions linked to credit cards, cash cards, and debit cards, as well as on the strong relationships of trust we have built with our clients. We will also expand our business from the current systems for authentication and fraudulent use detection for credit cards, to offer new services including card issuance.

# Unique:

Creative solutions fusing infrastructure technology and business knowledge

## System Solutions

### MARKET ENVIRONMENT

#### Enhancements in response to next-generation stock trading system in full-swing, but system investment remains low

This business segment has also been impacted by the structural change in the credit card industry. The securities industry, the other main client group in this segment, is investing in systems responding to the major system overhauls of the Tokyo Stock Exchange and the Osaka Securities Exchange but at the same time, the global financial crisis and economic downturn that began last year are keeping overall systems investment low.

### BUSINESS PERFORMANCE

#### Business strong for card abuse detection system ACE Plus and MDS, resulting in increase of both sales and income

Business was strong for system development, including system changes and upgrades for securities companies and trust banks, as well as system development related to ACE Plus, our credit card abuse detection system. As a result, sales for system development and software maintenance went up by 33.7% and 18.8% respectively. Sales of our in-house developed packages, ACE Plus and MDS (Market Data Distribution System), were steady, achieving approximately the same

level as the previous fiscal year. Hardware sales accompanying the sales of ACE Plus to credit card companies and department data centers have, for now, come full circle. As a result, the consolidated net sales and operating income of this segment posted a year-on-year increase of 9.4% to 2,061 million yen and 41.0% to 336 million yen respectively.

### STRATEGY AND CHALLENGE

#### Expanding sales of ACE Plus and capturing system demand from securities companies

In our credit card-related business, we will expand marketing for our ACE Plus, which has a good track record and reputation in the domestic market, to Southeast Asia, where needs for crime prevention solutions for credit card transactions are increasing. We will also work to increase sales by developing and releasing application software for improving the efficiency of credit card company operations.

As for the securities industry, we will make all-out efforts to capture demand related to the response to the integration of the Osaka Securities Exchange and JASDAQ, as well as to the introduction of a next-generation system.

We will also work on reducing our development costs by streamlining outsourcing costs and development business processes in order to strengthen our profitability.

# Proactive:

Practical security solution with a shift in emphasis from protection to utilization



## Security Systems

### MARKET ENVIRONMENT

#### Sudden and pronounced weakening in the market

At the end of last year, the economic downturn drove a sudden and pronounced decline in information security systems demand across the board for all businesses, as companies postponed projects and reduced their budgets for systems investment.

### BUSINESS PERFORMANCE

#### CWAT sales achieved same level as the previous year, and system maintenance expanded, resulting in an overall climb in sales

Although we had to enhance our marketing activities in this business segment, we were able to increase sales of our information leakage countermeasure system, CWAT, mainly to manufacturers, resulting in in-house developed package sales of the same level as the previous year. System maintenance contracts for CWAT grew steadily, achieving a 6.7% year-on-year increase in software maintenance revenue. Sales of products from other companies contributed to an increase in non-in-house developed package sales of 17.6%, while in-house developed ASP product sales climbed 21.6% higher than the previous year, driven by an increase in SAAS users for CWAT. As a result, consolidated net sales grew year-on-year by 3.8% to 883 million yen, while operating loss shrank from 554 million yen in the previous fiscal year to 214 million yen.

### STRATEGY AND CHALLENGE

#### Achieving a multi-layered revenue structure with security solution proposals

Although the business environment remains quite challenging, we will expand our sales of CWAT v.4.0, which is a significant enhancement of the original version, to meet the increasingly diverse security needs of enterprises. Although over 600 companies have already adopted CWAT, we will further strengthen our quality control and support system, to reach 1,000 companies as early as possible. Total solutions, not limited to CWAT and other systems/ tools, and a feasible service lineup will be proposed to achieve a multi-layered revenue structure.

Based on the above and EUCSecure\*, a new product with a high ROI released in October 2009, we will aggressively promote the expansion of our security business.

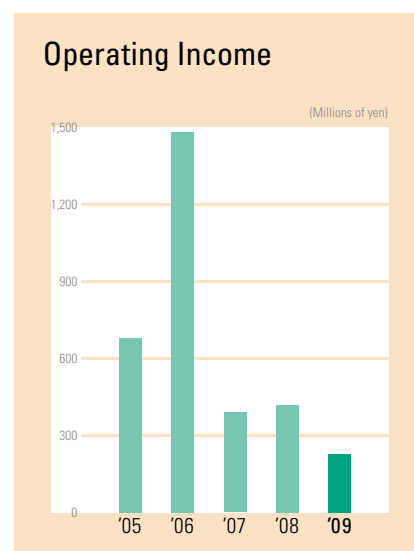
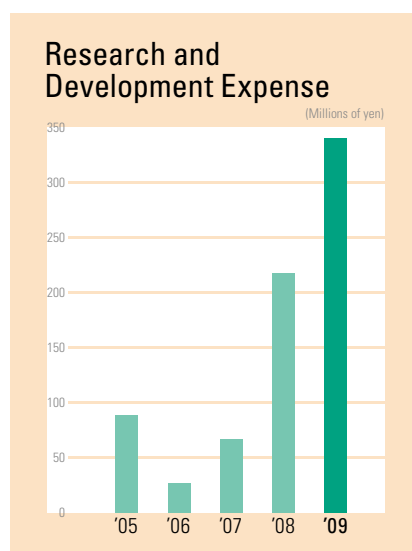
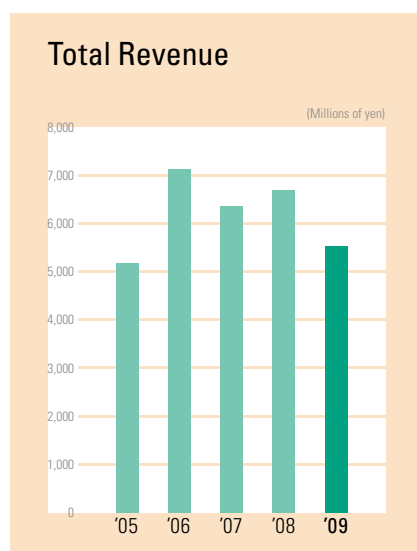
**\*EUCSecure, a security product representing a shift from "protection" to "utilization"**

Implementing measures against the leakage of personal or confidential business information is one of the highest priorities for many companies, but enhancing information security can also lead to reduced efficiency and higher costs. EUCSecure is an information security tool that facilitates the safe use of critical information, representing a shift from the basic approach of "protection" to "utilization."

## 11-Year Financial Summary

Years ended June 30	Millions of yen				
	1999	2000	2001	2002	2003
<b>For the year:</b>					
Total Revenue	¥3,291	¥3,858	¥4,844	¥5,505	¥5,891
Growth Ratio (%)	4.6	17.2	25.6	13.6	7.0
Cost of Goods Sold	2,848	2,564	2,686	3,103	3,974
Gross Profit	442	1,293	2,158	2,402	1,916
Selling, General and Administrative Expenses	249	459	629	547	738
Operating Income	193	834	1,528	1,854	1,177
Growth Ratio (%)	57.0	331.7	83.3	21.3	(36.5)
Ordinary Income	173	804	1,487	1,846	1,161
Extraordinary Income	-	1,763	-	618	2
Extraordinary Loss	49	541	45	43	219
Income before Income Taxes	124	2,027	1,441	1,803	945
Net Income	53	1,158	822	1,003	539
EBITDA	208	849	1,553	1,895	1,230
Cash Flows from Operating Activity	-	779	178	1,090	111
Cash Flows from Investing Activity	-	1,547	(268)	(1,037)	(782)
Cash Flows from Financial Activity	-	(596)	302	(237)	(585)
Cash & Cash Equivalents at Year-End	1,045	2,774	2,988	2,813	1,556
<b>At Year-End:</b>					
Current Assets	1,950	3,668	3,845	3,963	2,767
Cash and Equivalents	1,070	1,798	2,008	2,813	1,556
Total Assets	2,697	4,145	4,533	5,754	5,044
Ordinary Income to Assets Ratio (ROA) (%)	6.4	23.5	34.3	35.9	21.5
Net Assets	751	2,060	3,443	4,475	4,485
Return on Equity (ROE) (%)	7.4	82.4	29.9	25.3	12.0
Shareholders' Equity	-	-	-	-	-
Minority Interests	-	-	-	-	-

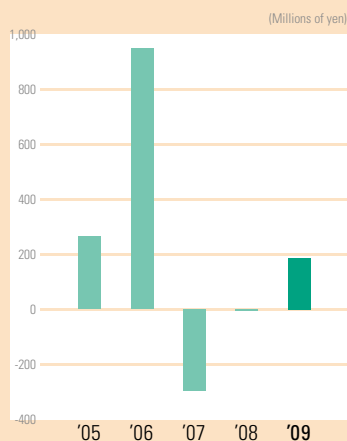
Notes: • EBITDA was computed by the following formula: Operating Income + (Depreciation and Amortization)  
 • Figures are shown on the non-consolidated basis up to the fiscal year ended June 30, 2005, and on the consolidated basis in the fiscal year ended June 30, 2006 and thereafter.



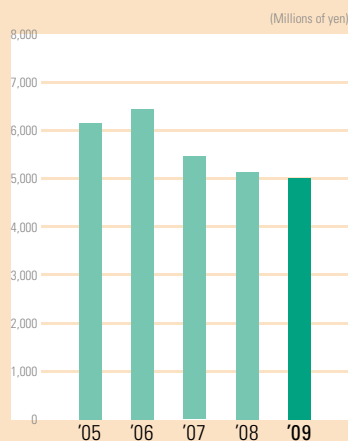
\$1.00=¥96.01  
Thousands of U.S. dollars

2004	2005	2006	2007	2008	2009	2009
¥5,257	¥5,174	¥7,137	¥6,367	¥6,695	¥5,527	\$57,567
(10.8)	(1.6)	-	(10.8)	5.2	(17.5)	
4,056	3,259	4,200	3,959	4,389	3,506	36,517
1,200	1,915	2,937	2,407	2,306	2,020	21,039
829	1,236	1,454	2,017	1,888	1,791	18,654
371	678	1,482	389	417	228	2,375
(68.5)	82.9	-	(73.7)	7.3	(45.3)	
365	688	1,452	407	403	235	2,448
41	11	186	24	28	147	1,531
153	262	23	466	398	74	771
253	437	1,614	(34)	33	308	3,208
156	264	947	(295)	(5)	187	1,948
458	749	1,570	502	544	325	3,385
(122)	457	944	(119)	971	432	4,500
273	(533)	(343)	(447)	64	(106)	(1,104)
(307)	(202)	(58)	(567)	(123)	(122)	(1,271)
1,399	1,121	1,780	654	1,532	1,684	17,540
3,078	3,725	3,792	3,070	3,319	3,126	32,559
1,399	1,121	1,781	656	1,534	1,685	17,550
5,009	6,144	6,443	5,457	5,133	5,011	52,192
7.3	12.3	23.3	6.8	7.6	4.6	
4,401	4,613	5,449	4,400	4,082	4,117	42,881
3.5	5.9	19.1	(6.0)	(0.1)	4.6	
-	-	5,397	4,400	4,082	4,117	42,881
-	-	52	-	-	-	-

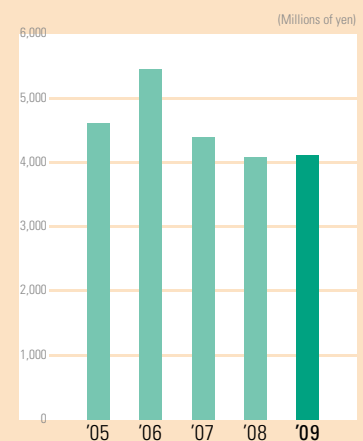
### Net Income



### Total Assets



### Net Assets



## Consolidated Balance Sheets

As of June 30, 2008 and 2009	Thousands of yen		\$1.00=¥96.01 Thousands of U.S. dollars
	2009	2008	2009
<b>Assets</b>			
Current assets			
Cash and equivalents	¥1,685,585	¥1,534,841	\$17,556
Accounts, notes receivable	894,354	1,115,032	9,315
Inventories	209,226	313,680	2,179
Deferred tax assets	151,970	311,551	1,583
Others	196,075	59,535	2,042
Doubtful accounts reserves	(10,250)	(14,710)	(107)
Total current assets	3,126,962	3,319,932	32,569
Fixed assets			
Tangible fixed assets			
Buildings, structures (net value)	236,814	250,190	2,467
Equipment, vehicles (net value)	261	684	3
Land	124,299	124,299	1,295
Others (net value)	43,779	43,116	456
Total tangible fixed assets	405,154	418,290	4,220
Intangible fixed assets			
Software	150,167	134,303	1,564
Software under development	3,078	21,508	32
Others	3,806	3,806	40
Total intangible fixed assets	157,052	159,618	1,636
Investment, other assets			
Marketable securities	529,672	533,335	5,517
Long term loans extended	26,440	30,000	275
Deferred tax assets	210,482	127,558	2,192
Deposits, guarantees	288,123	281,756	3,001
Others	366,123	391,120	3,813
Doubtful accounts reserves	(98,017)	(127,768)	(1,021)
Total investment, other assets	1,322,825	1,236,002	13,778
Total fixed assets	1,885,032	1,813,911	19,634
Total assets	5,011,995	5,133,844	52,203
<b>Liabilities</b>			
Current liabilities			
Notes and accounts payable	289,820	324,191	3,019
Unpaid corporate taxes	-	105,242	-
Bonus reserves	59,024	-	615
Director bonus reserves	24,273	10,954	253
Loss on orders reserves	-	7,500	-
Office closure loss reserves	-	85,790	-
Others	323,918	372,285	3,374
Total current liabilities	697,036	905,963	7,260
Fixed liabilities			
Retirement benefit reserves	143,898	98,352	1,499
Director retirement benefit reserves	51,970	46,617	541
Others	1,685	600	18
Total fixed liabilities	197,554	145,569	2,058
Total liabilities	894,591	1,051,533	9,318
<b>Net assets</b>			
Shareholders' equity			
Capital	843,750	843,750	8,788
Capital surplus	568,778	568,778	5,924
Retained earnings	3,999,812	3,931,555	41,660
Treasury stock	(1,280,609)	(1,280,609)	(13,338)
Total shareholders' equity	4,131,731	4,063,473	43,034
Valuation, translation adjustment			
Marketable securities valuation adjustment	34,913	44,056	364
Foreign exchange translation adjustment	(49,241)	(25,220)	(513)
Total valuation, translation adjustment	(14,327)	18,836	(149)
Total net assets	4,117,404	4,082,310	42,885
Total liabilities and net assets	¥5,011,995	¥5,133,844	\$52,203

## Consolidated Statements of Income

Years ended June 30, 2008 and 2009	Thousands of yen		\$1.00=¥96.01 Thousands of U.S. dollars
	2009	2008	2009
Net sales	¥5,527,350	¥6,695,829	\$57,571
Cost of goods sold	3,506,948	4,389,639	36,527
Gross profit	2,020,401	2,306,190	21,044
SG&A expense			
Advertising expense	68,889	60,284	718
Doubtful account reserve provisions	-	37,840	-
Director remuneration	61,347	59,150	639
Employee payroll	468,660	554,114	4,881
Bonuses	98,593	105,148	1,027
Director bonus reserve provisions	22,588	10,954	235
Bonus reserve provisions	18,148	-	189
Retirement benefit expenses	30,601	25,373	319
Director retirement benefit reserve provisions	5,790	5,455	60
Fringe benefits	83,478	81,004	869
Transportation	39,126	64,416	408
Communication	30,071	37,374	313
Consumables	18,665	23,479	194
Depreciation, amortization	20,579	33,877	214
Rent, lease	135,532	169,041	1,412
Compensation payment	48,494	42,418	505
Outsourcing	116,548	102,196	1,214
Research and development	339,641	217,621	3,538
Others	185,008	258,729	1,927
Total SG&A expenses	1,791,768	1,888,480	18,662
Operating income	228,633	417,709	2,381
Non-operating income			
Interest income	2,856	7,590	30
Dividend income	15,918	15,376	166
Subsidies	23,332	21,703	243
Others	6,669	11,779	69
Total non-operating income	48,776	56,449	508
Non-operating expense			
Interest expense	-	695	-
Equity accounting method loss	-	11,826	-
Commitment fee	5,563	-	58
Foreign exchange loss	26,292	47,920	274
Investment partnership loss	9,151	-	95
Others	1,234	9,818	13
Total non-operating expense	42,241	70,260	440
Ordinary income	235,168	403,898	2,449
Extraordinary income			
Doubtful account reserve reversal	11,831	-	123
Silent partnership investment gain	34,267	27,728	357
Marketable securities sale	59,656	-	621
Office closure loss reserve reversal	41,776	-	435
Others	-	275	-
Total extraordinary income	147,532	28,003	1,537
Extraordinary loss			
Fixed asset disposal loss	105	485	1
Impairment loss	2,816	145,399	29
Software write-down loss	2,151	136,511	22
Marketable securities valuation loss	3,901	17,201	41
Office closure loss reserve provision	-	85,790	-
Office move expense	36,568	-	381
Retroactive retirement benefit	13,021	-	136
Compensation payment	11,607	-	121
Others	4,239	13,103	44
Total extraordinary loss	74,413	398,491	775
Net income before taxes	308,287	33,411	3,211
Corporate, local, and enterprise tax	40,476	224,347	422
Corporate tax adjustment	79,942	(137,047)	833
Total taxes	120,418	87,300	1,254
Minority shareholding income	-	(48,015)	-
Net income before taxes	¥187,868	¥(5,873)	\$1,957

## Consolidated Statements of Cash Flows

Years ended June 30, 2008 and 2009	Thousands of yen		\$1.00=¥96.01 Thousands of U.S. dollars
	2009	2008	2009
<b>Cash flow from operating activities</b>			
Net income before taxes	¥308,287	¥33,411	\$3,211
Depreciation, amortization	97,677	127,998	1,017
Doubtful account reserve, change	(34,985)	39,225	(364)
Bonus reserve, change	59,024	-	615
Loss on order reserve, change	(7,500)	7,500	(78)
Director bonus reserve, change	13,319	6,293	139
Office closure loss reserve, change	(85,790)	85,790	(894)
Retirement benefit reserve, change	45,546	29,792	474
Director retirement benefit reserve, change	5,352	627	56
Interest, dividends received	(18,775)	(22,966)	(196)
Equity accounting method income	-	11,826	-
Investment partnership income	9,151	481	95
Interest expense	-	695	-
Commitment fee	5,563	6,512	58
Silent partnership income	(34,267)	(27,728)	(357)
Marketable securities sale	(59,656)	-	(621)
Fixed asset disposal gain	105	485	1
Software write-downs	2,151	136,511	22
Depreciation, amortization	2,816	145,399	29
Marketable securities valuation gains	3,901	17,201	41
Accounts receivable, change	267,805	4,406	2,789
Inventories, change	104,453	686,604	1,088
Accounts payable, change	(66,704)	(61,334)	(695)
Others	(13,773)	(75,255)	(143)
Subtotal	603,702	1,153,477	6,288
Interest, dividends received	19,267	25,072	201
Interest paid	-	(695)	-
Commitment fee paid	(4,950)	(7,020)	(52)
Corporate tax paid	(185,857)	(199,579)	(1,936)
Cash flow from operating activities	432,161	971,256	4,501
<b>Cash flow from investing activities</b>			
Time deposit reversals	-	200,000	-
Marketable securities acquisition	(13,459)	(599)	(140)
Marketable securities sale	2,409	4	25
Investment partnership dividend	17,725	17,375	185
Tangible fixed asset acquisition	(39,672)	(13,155)	(413)
Intangible fixed asset acquisition	(61,338)	(110,694)	(639)
Deposits, guarantees paid	(43,235)	(11,654)	(450)
Deposits, guarantees returned	32,146	-	335
Insurance reserve provisions	(18,764)	(18,013)	(195)
Insurance reserve reversals	9,723	-	101
Others	7,695	1,338	80
Cash flow from investing activities	(106,771)	64,599	(1,112)
<b>Cash flow from financing activities</b>			
Short term debt	-	900,000	-
Short term debt repayment	-	(900,000)	-
Dividend payment	(122,568)	(123,313)	(1,277)
Cash flow from financing activities	(122,568)	(123,313)	(1,277)
Cash and equivalents translation gains	(8,814)	(34,109)	(92)
Cash and equivalents, change	194,006	878,432	2,021
Cash and equivalents at term start	1,532,819	654,386	15,965
Scope of consolidation change impact on cash and equivalents	(42,646)	-	(444)
Cash and equivalents at end term	¥1,684,179	¥1,532,819	\$17,542

## Consolidated Statements of Changes in Net Assets

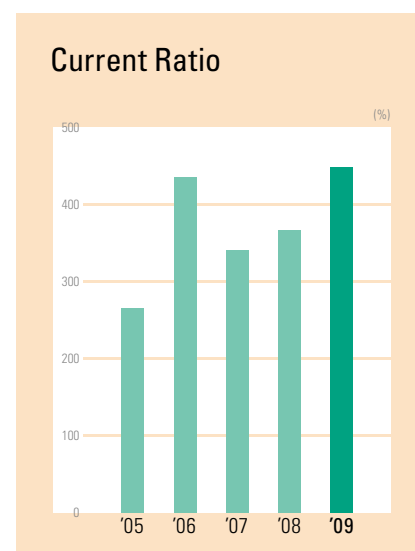
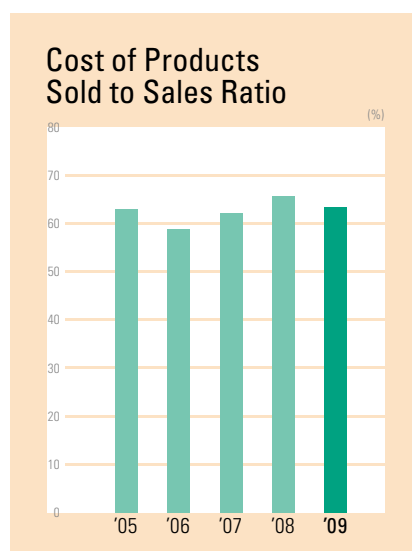
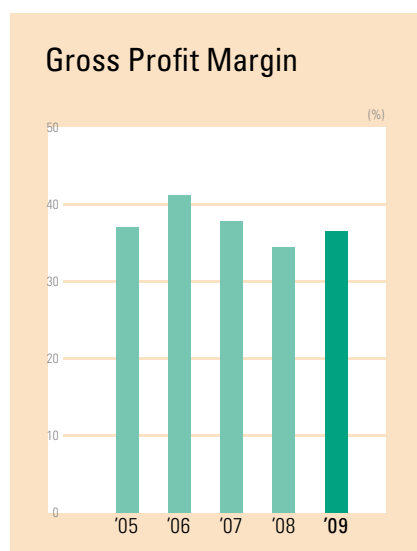
Years ended June 30, 2009 and 2008	Thousands of yen		\$1.00=¥96.01 Thousands of U.S. dollars
	2009	2008	2009
<b>Shareholders' Equity</b>			
Capital Stock			
Balance at June 30, 2008	¥843,750	¥843,750	\$8,788
Balance at June 30, 2009	843,750	843,750	8,788
Capital Surplus			
Balance at June 30, 2008	568,778	568,778	5,924
Balance at June 30, 2009	568,778	568,778	5,924
Retained Earnings			
Balance at June 30, 2008	3,931,555	4,060,819	40,949
Changes during the year			
Cash dividends	(123,391)	(123,391)	(1,285)
Increase from exclusion of consolidation	3,780	-	39
Net income (loss)	187,868	(5,873)	1,957
Total change during the year	68,257	(129,264)	711
Balance at June 30, 2009	3,999,812	3,931,555	41,660
Treasury Stock			
Balance at June 30, 2008	(1,280,609)	(1,280,609)	(13,338)
Balance at June 30, 2009	(1,280,609)	(1,280,609)	(13,338)
Total Shareholders' Equity			
Balance at June 30, 2008	4,063,473	4,192,738	42,323
Changes during the year			
Cash dividends	(123,391)	(123,391)	(1,285)
Increase from exclusion of consolidation	3,780	-	39
Net income (loss)	187,868	(5,873)	1,957
Total change during the year	68,257	(129,264)	711
Balance at June 30, 2009	4,131,731	4,063,473	43,034
<b>Valuation and Translation Adjustments</b>			
Valuation difference on other marketable securities			
Balance at June 30, 2008	44,056	185,651	459
Changes during the year			
Changes in items other than shareholders' equity (net)	(9,142)	(141,595)	(95)
Total change during the year	(9,142)	(141,595)	(95)
Balance at June 30, 2009	34,913	44,056	364
Exchange conversion adjustment account			
Balance at June 30, 2008	(25,220)	21,894	(263)
Changes during the year			
Changes in items other than shareholders' equity (net)	(24,021)	(47,115)	(250)
Total change during the year	(24,021)	(47,115)	(250)
Balance at June 30, 2009	(49,241)	(25,220)	(513)
Total Valuation and Translation Adjustments			
Balance at June 30, 2008	18,836	207,546	196
Changes during the year			
Changes in items other than shareholders' equity (net)	(33,163)	(188,710)	(345)
Total change during the year	(33,163)	(188,710)	(345)
Balance at June 30, 2009	(14,327)	18,836	(149)
<b>Minority Interests</b>			
Balance at June 30, 2008	-	-	-
Balance at June 30, 2009	-	-	-
<b>Total Net Assets</b>			
Balance at June 30, 2008	4,082,310	4,400,285	42,520
Changes during the year			
Cash dividends	(123,391)	(123,391)	(1,285)
Increase from exclusion of consolidation	3,780	-	39
Net income (loss)	187,868	(5,873)	1,957
Changes in items other than shareholders' equity (net)	(33,163)	(188,710)	(345)
Total change during the year	35,093	(317,975)	366
Balance at June 30, 2009	¥4,117,404	¥4,082,310	\$42,885

## Financial Indicators

Years ended June 30

	2004	2005	2006	2007	2008	2009
<b>Growth Trends</b>						
YOY Changes in Net Sales (%)	(10.8)	(1.6)	-	(10.8)	5.2	(17.5)
YOY Changes in Operating Income (%)	(68.5)	82.9	-	(73.7)	7.3	(45.3)
YOY Changes in EBITDA (%)	(62.8)	63.5	-	(68.0)	8.4	(40.3)
<b>Profitability &amp; Productivity</b>						
Gross Profit Margin (%)	22.8	37.0	41.2	37.8	34.4	36.5
Operating Income Margin (%)	7.1	13.1	20.8	6.1	6.2	4.1
Net Income Margin (%)	3.0	5.1	13.3	(4.6)	(0.1)	3.4
Gross Profit per Employee (¥ thousand)	4,781	7,913	11,428	8,566	8,385	7,189
Operating Income per Employee (¥ thousand)	1,478	2,802	5,767	1,384	1,516	811
Number of Employees	251	242	257	281	275	281
<b>Efficiency</b>						
Cost of Products Sold to Sales Ratio (%)	77.2	63.0	58.8	62.2	65.6	63.4
SG&A Expenses to Sales Ratio (%)	15.8	23.9	20.4	31.7	28.2	32.4
Return on Assets (ROA) (%)	7.3	12.3	23.3	6.8	7.6	4.6
Return on Equity (ROE) (%)	3.5	5.9	19.1	(6.0)	(0.1)	4.6
<b>Stability</b>						
Current Ratio (%)	667.7	265.5	435.4	340.7	366.7	448.5
Equity Ratio (%)	87.9	75.1	83.8	80.6	79.5	82.2
<b>Per Share Data</b>						
Earning per Share (Yen)	1,146.66	2,047.86	7,462.01	(1,176.48)	(23.80)	761.27
Book Value per Share (Yen)	34,489.64	36,416.11	42,701.35	17,830.66	16,542.17	16,684.38
Dividend per Share (Yen)	500.00	500.00	1,000.00	500.00	500.00	500.00
Number of Shares Outstanding (Share)	131,700	131,700	131,700	263,400	263,400	263,400
<b>Share Data</b>						
Year-End Share Price (Yen)	115,000	127,500	127,000	69,300	19,150	17,000
Forward EPS (Yen)	-	-	-	1578.44	1305.15	713.18
Price Earning Ratio (Forward;Times)	-	-	-	43.90	14.67	23.84
Price Book Value Ratio (Times)	3.33	3.50	2.97	3.89	1.16	1.02

Notes: • EBITDA was computed by the following formula: Operating Income + (Depreciation and Amortization)  
• Figures are shown on the non-consolidated basis up to the fiscal year ended June 30, 2005, and on the consolidated basis in the fiscal year ended June 30, 2006 and thereafter.



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## ○ Risk Information

The performance of our group may fluctuate depending on various factors including conditions in the industries in which we operate, the products we develop, the types of contracts we enter into, and the business model we are following.

### INDUSTRY TREND

#### Impacts from industry restructuring and industry law revisions

In recent years, industry restructuring led by the megabanks is pushing credit card companies increasingly towards joint operation of information systems as a way of reducing systems operation costs.

In the short term, this will generate demand for system integration and modifications, presenting us with an opportunity. Over the medium- to long-term, however, these consolidations of credit card companies may lead to the overall market shrinking.

Due to the global financial crisis, most credit card companies are suppressing their IT spending. If they are spending, they are tending to prioritize the system enhancements required to respond to the revisions in the Money-Lending Business Control and Regulation Law and the Installment Sales Law. This means that we expect a decrease in system development orders for a certain period. We are working to minimize these kinds of impacts resulting from external environment changes by expanding our scope of business.

### ANTI-DATA LEAKAGE SOLUTION CWAT

#### Impacts from competing products and revision of relevant laws

As of now, we believe that our proprietary anti-data leakage solution CWAT released in February 2004 and its related products have a technological competitive edge over other solutions and products. However, intensified competition with similar offerings released by other companies or significant changes in the wider social environment, including revisions to the Act on the Protection of Personal Information and other laws, may impact our business performance. We are working to maintain our competitive edge by proposing solutions that meet our client's needs and by enhancing the functionality of the system.

### TYPES OF CONTRACTS

#### Impacts from unprofitable projects in contract-based system development

We often receive system development orders in the form of SI contracts or lump sum contracts. Sometimes, there may be specification changes after the contract is signed, or more man-hours than the initial estimate are required, or there may be delays. Any of these can cause the development project to be unprofitable, and impact our bottom line. We are working to prevent projects from turning unprofitable by signing staged contracts for system developments, especially for long-term projects, improving the accuracy of estimates, and enhancing the project management structure through risk management and other means.

### FINANCIAL STRATEGY

#### Impacts from valuation loss on investment securities

We may own shares in certain companies for strategic reasons. These investment securities are reevaluated every fiscal year at the financial closing based on financial instrument accounting standards and corporate regulations. If the business performance of the company in which we have invested deteriorates, significantly damaging or decreasing its net value, this may also impact the performance of our company. We are working to minimize such risks through appropriate investigation and evaluation before investment.

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## ○ Corporate Governance

We believe that the objective of corporate governance is to secure accountability to our stakeholders and maintain continuous growth through sound and highly transparent management.

### OUR ORGANIZATIONAL SYSTEM

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#### Board of Directors

Our Board of Directors consists of seven directors (as of September 29, 2009). It makes decisions on critical matters, including the company's management policies and the appointment of corporate officers. It also monitors the execution of duties by the directors themselves, as well as the execution of business by the corporate officers.

#### Strategic Committee

We organized our Strategic Committee in January 2003. Consisting of the Board of Directors, corporate officers and executives, the Strategic Committee maintains a unified course and ensures the thorough communication of business strategies.

#### Auditing system

Our company adopts an auditing system based on a Board of Auditors consisting of four members: one full-time auditor and three external auditors (as of September 29, 2009). Each one conducts auditing based on the audit plan formulated at the Board of

Auditors meeting. They also attend critical meetings, including Board of Directors meetings, and monitor the business execution of the directors by conducting audits on business activities as well as assets.

Financial audit is conducted by a team of eight, including two CPAs from an auditing firm and other assisting CPAs.

Internal audits are conducted by the Internal Auditing Office, which is a dedicated team reporting directly to the president. Its two members audit management efficiency and compliance based on internal audit regulations, the annual audit plan and the audit implementation plan. Findings, including recommendations regarding corrective measures, are reported to the president, the auditors, and the audited department and the outcomes of corrective measures undertaken are later confirmed as necessary.

In the above auditing processes, the auditors, the Internal Audit Office, and the CPAs maintain communication among themselves, such as briefing each other on the plan, progress, and results of their respective audits.

## Investor Information

### Corporate Data (As of September 29, 2009)

Name	Intelligent Wave Inc.
Date established	December 27, 1984
Number of employees	281 (Consolidated) 268 (Non-consolidated)
Paid-in capital	¥843 Million
Stock listing	JASDAQ
Code number	4847
Accounting period	July 1 to June 30
Annual shareholders' meeting	Within three months after the day following the end of the fiscal year
Head office	Kayabacho Tower, 1-21-2, Shinkawa Chuo-ku, Tokyo 104-0033, Japan
Phone	+81-3-6222-7111
Fax	+81-3-6222-7104
e-mail	ir_info@iwi.co.jp

### Board of Directors and Corporate Auditors

Chairman	Kazuhiko Adachi
President	Yoshiyuki Yamamoto
Vice President	Chiharu Tsuchida
Senior Directors	Masaharu Shirasugi Otohei Arai
Director, Senior Corporate Officer	Keiji Oyama
Director, Corporate Officer	Hideki Nishino
Full-time Corporate Auditor	Toyonori Imada
Corporate Auditors	Yasuaki Suzuki Hidehiro Kuramota Hitoshi Nomura

### Overseas Subsidiaries

#### U.S.A. (New York City)

INTELLIGENT WAVE USA, INC.  
60 East 42nd Street, Suite 1801 New York, NY 10165 U.S.A.  
Phone: +1-212-867-3205 Fax: +1-212-867-4053  
e-mail: info@iwiusa.com  
(Sale of CWAT products)

#### Korea (Seoul)

INTELLIGENT WAVE KOREA INC.  
4F, YoungLim B/D, 166-6, Garak 2-dong, Songpa-gu, Seoul, Korea 138-810  
Phone: +82-2-406-1513 Fax: +82-2-406-1511  
e-mail: webmaster@iwki.co.kr  
(Contracted development of software)

### Share Information (As of June 30, 2009)

Number of authorized shares	1,053,600 shares
Number of shares issued and outstanding	263,400 shares
Shares per trading unit	1 share
Number of shareholders	15,336
Treasury stock owned	Common stock 16,618 shares

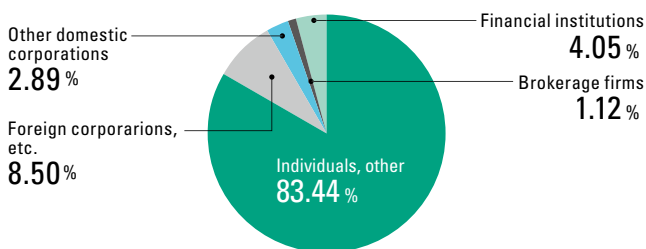
#### Major Shareholders (As of June 30, 2009)

Major shareholders	Shares held	%
Kazuhiko Adachi	30,320	11.51
Intelligent Wave Inc.	16,618	6.31
State Street Bank and Trust Company 505104	15,915	6.04
Motoichi Mizota	5,616	2.13
Morgan Stanley and Co. Incorporated	4,635	1.76
Intelligent Wave Employee Shareholders Association	4,342	1.65
Nippon Life Insurance Company	2,400	0.91
Hideki Nishino	2,081	0.79
Century Tokyo Leasing Corporation	2,038	0.77
Japan Securities Finance Co., Ltd.	2,019	0.76

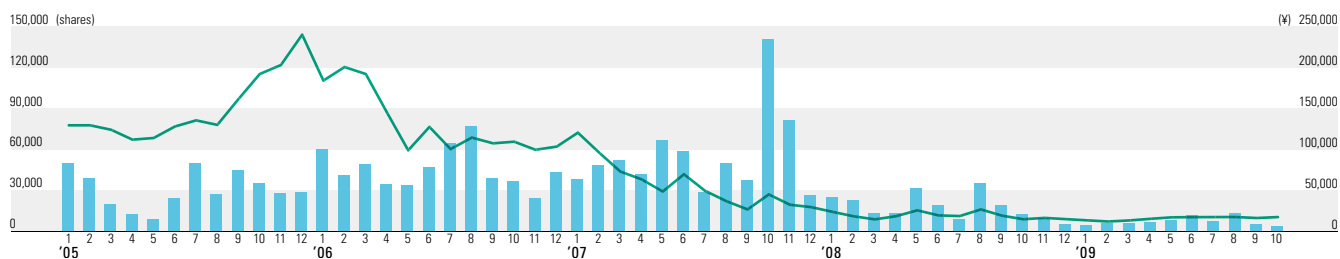
#### Shareholders Composition (%)

Individuals, other*	83.44
Foreign corporations, etc.	8.50
Other domestic corporations	2.89
Brokerage firms	1.12
Financial institutions	4.05

\*Including treasury stock owned 16,618 shares



### Common Stock Price and Trading Volume



INTELLIGENT WAVE INC.

[www.iwi.co.jp](http://www.iwi.co.jp)

