

To Our Shareholders and Investors

**Consolidated Cumulative Business Report for Second Semester
(Fiscal Year Ended March 2014)
April 1, 2013 - September 30, 2013**



Greetings

To all our valued shareholders and investors, I would like to express my warmest gratitude for your continued patronage and hope that this letter finds you well.

I would like to start off by informing you that our financial reports for this consolidated cumulative second quarter, ended with positive figures.

This is in part, a result of us staying true to our mission of connecting developers with end users to bring forth products which meet their specific needs, and due to these efforts, our operating income, ordinary income, and quarterly net income for the this consolidated cumulative second quarter marked the highest numbers to date. I would like to thank all our valued shareholders and investors from the bottom of my heart, for this extraordinary accomplishment would not have been possible without your strong support and encouragement.

In this second quarter, as a result of us releasing "Super Security ZERO - 3 license version", our OTC (over-the-counter) units sold, OTC sales and shares, all exceeded figures from the same quarter, last fiscal year. In the area of smartphone apps, besides the existing "au Smart Pass" service, we started providing our apps to the newly launched "SUGO-TOKU Contents", which was very well received. In addition, we began providing over 50 of our popular software line ups such as "Virus Security" and "FUDEOH" to the "All-You-Can-Use PC Software on FLET'S / powered by OPTiM" and we believe that through these new relationships with mobile carriers / ISP's we will be able to further extend our outreach to an even broader audience than before.

Also in this consolidated cumulative second quarter, we actively sought out new products and services in overseas markets - not only in the U.S. but from around the world, and introduced these products into the Japanese market. We hope to continue focusing on this area to bring forth more "joy" and "excitement" to people around the world, and to ultimately create new values in the software market by providing solutions to customers through our products and services.

I would like to express my deepest gratitude to all, for your understanding and your kind encouragement, and look forward to your continued support in the coming future. Thank you very much.



SOURCENEXT Corporation
President and CEO
Noriyuki Matsuda

SOURCENEXT Products and Service

"Adapting to the Changing Times"

PC Software

[Strategies to Increase Security Software Share]

Security software is without doubt the area of software market which holds the largest number of users. From 2012, in an aim to further expand our market shares, we began providing security products in multiple line ups and in September of 2013, to strengthen overall sales in this area, we unified these individual security line ups under a single new "ZERO" brand. Also in September, we introduced our third security product to retail sales which has helped lead the way for increased shares.



"Super Security ZERO" Unrivaled protection and functionality
"Cloud Security ZERO" High performance at a reasonable price
"Virus Security ZERO" The lightest, most affordable security solution

No Renewal Fees = One Less Worry

The "ZERO" security brand allows users to choose the perfect security solution for their personal needs. With no annual renewal fees required, users no longer need to worry about their protection expiring on them.



Conventional Security Products

Most security software require an annual renewal fee to keep PC's protected. Once the product expires, the users are left unprotected with no security.

The "ZERO" Advantage

The "ZERO" series promises users continued protection with no annual fees. Expiration is based on the OS support period, so users only need to pay once to stay protected.

Top-selling Wedding Photo Movie Software

Sensing the rising demands for wedding photo movie software, we introduced an all new, "Heart-Capturing Wedding Photo Movie" in June this year. Despite being a new-comer in the game, on September 2013, it outsold all present competitors and became the No.1 (*) wedding photo movie software in units sold.



* Extracted software with keyword "Wedding" used in title, from the "PC Software / Graphic" category. Based on survey conducted by GfK Japan, September 2013, and compiled by SOURCENEXT

"All-You-Can-Use" PC Software Service

From May 2013, we began to partner up with ISP's in Japan to provide our products through an "All-You-Can-Use PC Software Service", and have made over 50 of our most popular products available for downloading through this service. Within a mere 3 months from start of service, we have had 3 major ISP's, including NTT East Japan, join this service. Since most PC software developers in Japan specialize in a certain area of software, only a few companies such as SOURCENEXT have the capacity to provide over 50 different titles. We believe that this gives us the competitive edge and we hope to continue taking full advantage of this opportunity.



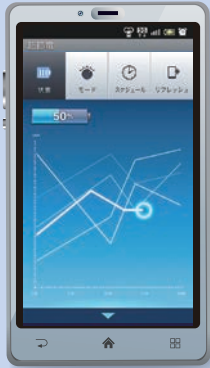
No.1 in 6 Categories

In 2012, our products were ranked No.1 in 6 of the 27 different categories in the GfK Ranking.



According to GfK Japan research on sales data of major domestic electronics retailers in 2012.

Smartphone Apps



CHOU-SETSUDEN
(Main Window)

[Continuously Growing Android App Market]

This year, we continued to see considerable growth in our smartphone app business, which has grown to become a strong source of income. Android apps have led the way with 21 apps now available in the product line up, and we have focused on making these apps more readily available by providing them through monthly subscription services of major mobile phone carriers.



CHOU-SETSUDEN



KYOSOKU-MEMORY



BANNO-CAMERA



CHOU-SCAN
(QR+OCR+Translator)



CHOU-DENTAKU



TOKU-UCHI
FLICK

KDDI au "Smart Pass"

10 apps, including the battery saving app "CHOU-SETSUDEN", the memory management app "KYOSOKU-MEMORY", and OCR / Translator app "CHOU-SCAN" were selected for au's popular monthly subscription service, "au Smart Pass".

NTT docomo "SUGO-TOKU Contents"

Many of our apps have also been selected for NTT docomo's monthly subscription service, "SUGO-TOKU Contents". Apps selected include - "BANNO-CAMERA", an all mighty camera app with over 81 different features, "CHOU-DENTAKU", a calculator app with 10 types of calculators for various situations, and "ThinkFree", an Office app that allows you to view/edit files on smartphone.

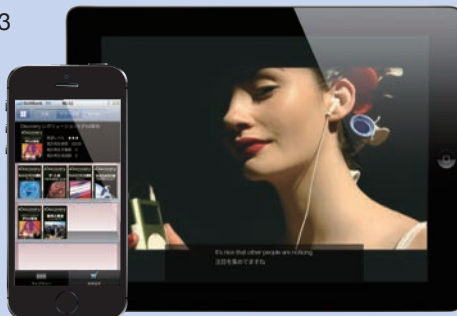
Apps for iOS

In the iPhone / iPad app market, we continue to provide strong contents through apps such as "CHOUJIMAKU" (over 108* titles) which uses popular movie contents as base for teaching users English, and also an all new business card management app called "Cardful", which comes with full EVERNOTE integration.

* as of October 2013

CHOUJIMAKU

LEFT: Catalog window where users select the products to download.
RIGHT: "The X Revolution - The iPod Revolution" being played on iPad in full-screen mode.



"Download: The True Story Of The Internet - Search Wars""Human Body: Pushing The Limits - Brain Power"
"Download: The True Story Of The Internet - Ebay / Amazon""When We Left Earth: The NASA Missions - Ordinary Supermen""The X Revolution - The iPod Revolution""We Built This City - New York"
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Cutting Edge Services

[Collaborations Unbound by Borders]

In September 2012, we established our very first U.S. subsidiary in the Silicon Valley.

For venture companies in the Silicon Valley, Japan is considered a very attractive market, being the world's second largest market and with very little illegally copied software, but also at the same time is considered as being one of the most difficult markets to break into. With access to retail stores, online channels, and also to smartphone carrier services, SOURCENEXT is quickly gaining attention from companies around the world as being the link which bridges the gap between Japan and the Silicon Valley. Our successful business cases have led to many new cross-border collaborations and our partnerships continue on into countries in Asia and Europe.



EVERNOTE



Dropbox

Packaging Unique Cloud Services

Purchasing products from or subscribing to services on foreign online websites using credit cards is a huge barrier for Japanese consumers. At SOURCENEXT, we simplify things - and all users need to do to start using these services is to enter their serial number.



Wi-Fi Security AnchorFree

As Wi-Fi hotspots become more and more popular, a need for ways to prevent data theft at these vulnerable points is becoming a key issue. "Wi-Fi Security" is a personal VPN app which helps to prevent these types of threats that conventional Anti-Virus apps cannot prevent.

Other Multi-Platform Services Under Development

AirDroid

Allows you to control and manage your Android device from PC, and also helps to locate the device when lost or stolen.

Splashtop

Allows you to remotely control your PC from mobile devices such as smartphones and tablets.

User Services

[New Services to Our 10 Million Subscribers]

At SOURCENEXT, we feel it is very important to build a strong relationship with our customers, and in order to provide the best possible services to our registered users, we continue to invest in making new enhancements to our user services.



Frequently Asked Questions

Q. What is your most popular product or service?

A. The "ZERO" security software series.

In the second semester of year 2012, "Virus Security ZERO" was marked as the PC software which sold the most number of copies in Japan. Ever since its introduction to the market in 2003, the number of users has continued to grow and there are over 8.7 million total users, to date. Also, our other ZERO security products, "Super Security ZERO" and "Cloud Security ZERO" have helped to boost overall sales and have contributed in increasing our "market share in sales" in this area.

Q. Why do you provide 3 different security software?

A. To have more people understand the advantages of our "no renewal fees" policy.

By offering security products with different characteristics and priced to suit these different needs, we make it easier for users to choose the right "ZERO" product to suit their specific needs. As a result, more and more people will be able to experience the advantages of our "no renewal fee" policy and thereby, help to increase our overall market share.

Q. What is the purpose behind partnering up with overseas companies?

A. To search for the best products, technologies and developers from around the world and to introduce their products to people in Japan and deliver the best possible experience to them.

In order to carry out this mission, we venture beyond the boundaries of Japan and partner with companies based in countries around the world, such as the U.S., China, India, Romania, Bangladesh, and many more. Our U.S. subsidiary is based in the Silicon Valley, where many of the world's newest technologies and innovations are born - which gives us great access and insight into the latest technological trends.

Q. What are your future business strategies?

A. To not limit our business to "PC software" but to expand into a more comprehensive range of businesses, which fully utilize our strengths and competitive edge.

In the PC software market, our strategy is to continue focusing on our "ZERO" security products and also on our flagship titles, "FUDEOH" and "IKINARI PDF".

In the area of smartphone apps, we aim to develop a new hit title which will follow the success seen in apps such as "CHOU-SETSUDEN", "KYOSOKU-MEMORY", and "BANNO Camera" while also broadening our apps lineup to build a solid base of income from app sales.

We also plan to continue providing more apps for mobile carrier based subscription services such as "au Smart Pass" (KDDI) and "SUGO-TOKU Contents" (NTT docomo). And through our newly formed U.S. subsidiary, we aim to build a strong pipeline with overseas companies and to establish a firm backbone for bringing forth new, innovative contents from around the world.

Q. Does SOURCENEXT have a regulatory compliance program which they abide by?

A. Our company as a whole has a strong sense of abiding by and upholding compliance regulations.

At SOURCENEXT, our ultimate corporate goal is "to become the world's most EXCITING company" and we define this term "EXCITING" to mean "truthful, appreciated, and interesting". To be truthful - not just to laws, policies and corporate standards but to be truthful in the sense of social responsibility and moral standards.

From our full-time employees to our part-time staffs, each and every persons who enter our company are required to first take an e-Learning (web-based testing) course which teaches them of the importance of upholding compliance. In addition to this, we conduct a special Compliance Training course on an annual basis in which a designated committee educates the entire staff upon compliance regulations and the present corporate policies (all employees are required to participate in this course).

Corporate obligations set forth by law, are also upheld accordingly and we have a "Corporate Ethics Hotline" (run by an independent third party that has no stakes in our company) set up where all our employees are able to contact and anonymously report any unethical acts they find in the company.

Financial Highlights

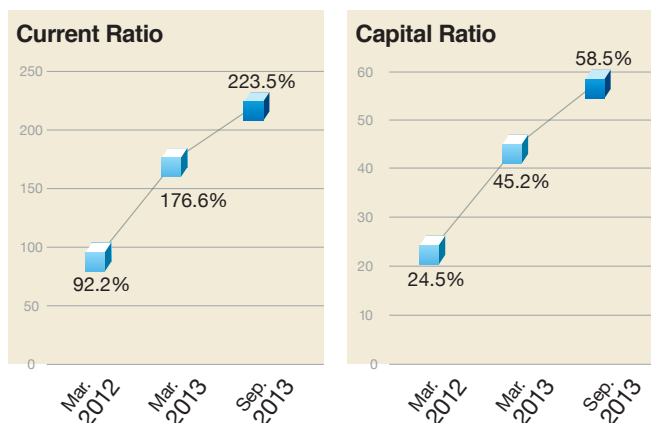
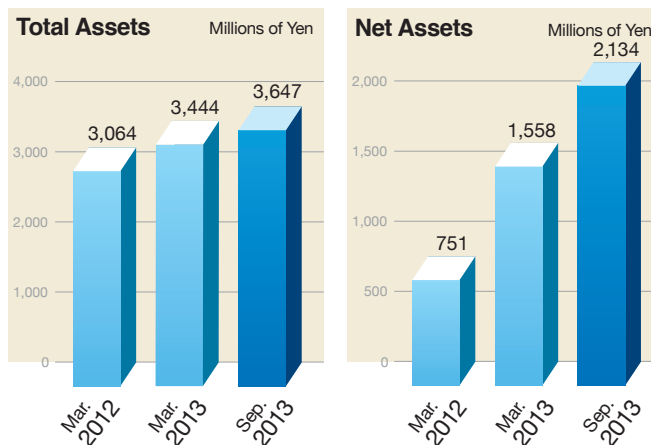
Quarterly Summary

In this consolidated cumulative second quarter (April 1, 2013 - September 30, 2013), we primarily placed our focuses on the development and sales of our flagship products in 2 main areas.

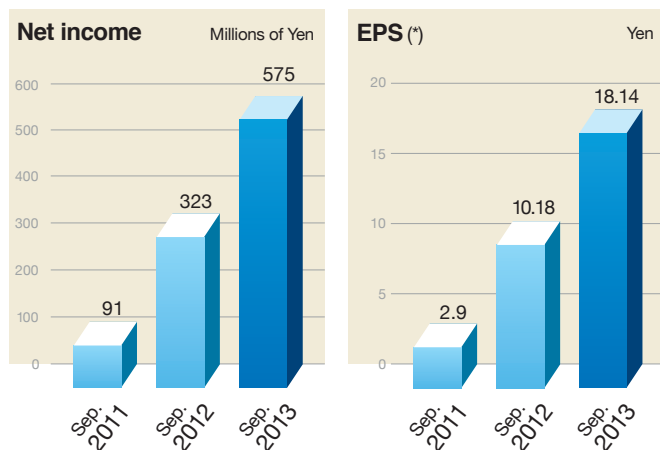
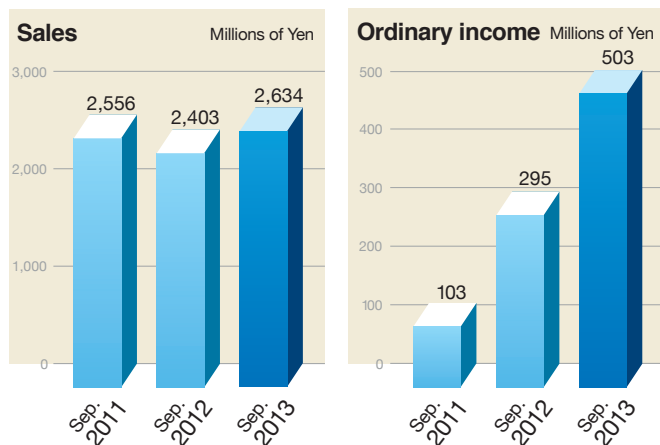
For PC software, we released the 3 licenses version of "Super Security ZERO" in April, and also introduced an all new "Cloud Security ZERO" in May. In June, we released a new wedding photo software titled, "Heart-Capturing Wedding Photo Movies" and in August, we released the latest version of our ever-popular postcard creation software, "FUDEOH".

In the area of smartphone apps, we provided 3 titles to the monthly subscription service, "SUGO-TOKU Contents" - an app downloading service just recently started by NTT docomo on May. Titles accepted by the service included our popular multi-purpose camera app, "BANNO-Camera". In addition, we submitted 11 new titles to KDDI's monthly subscription service, "au Smart Pass", and drove our total number of Android apps in the product line up to 21 apps.

As result of these marketing activities, our operating income marked 517 million yen (1.6x increase from the same quarter of the previous fiscal year), ordinary income marked 503 million yen (1.7x increase from same quarter of previous fiscal year) and quarterly net income marked 575 million yen (1.8x increase from same quarter of previous fiscal year) - making this consolidated cumulative second quarter the most profitable quarter to date in terms of operating income, ordinary income, and quarterly net income.



Consolidated Business Performances for the Six Months Ended September 30, 2013



Full Year Forecast

For the consolidated business forecasts for fiscal year ending March 2014, we estimate a sales volume of 5,383 million yen, operating income of 819 million yen, ordinary income of 802 million yen and net income of 833 million yen.

For the second semester, we plan to continue focusing our business activities on our "ZERO" security software series, while striving to increase sales for "FUDEOH" and also placing emphasis on the development and sales of new smartphone related applications.

We also plan to take advantage of business opportunities from our newly formed U.S. subsidiary, and continue to bring forth new, innovative products and services from overseas markets.

(*) On October 1, 2012, we carried out a stock split in which our stocks were split 100-for-1, and on September 1, 2013, we carried out a stock split in which stocks were split 2-for-1. In accordance to this stock split, we have calculated the net income for a single share for this quarter semester under the supposition that the stock split was carried out at the beginning of fiscal year 2011.

Consolidated Quarterly Financial Statements

Consolidated Balance Sheets

(As of Sep 30, 2013)

Thousands of Yen

< Assets >		< Liabilities >	
Current assets	2,614,234	Current liabilities	1,169,512
Noncurrent assets	1,033,129	Noncurrent liabilities	343,749
Property, plant and equipment	31,091	Total liabilities	1,513,262
Intangible assets	838,700	< Net Assets >	
Investments and other assets	163,337	Shareholders' equity	2,132,767
		Capital stock	1,771,226
		Capital surplus	1,611,226
		Retained earnings	(1,249,684)
		Own share	(1)
		Accumulated other comprehensive income	766
		Share warrant	568
		Total net assets	2,134,101
Total assets	3,647,364	Total liabilities and net assets	3,647,364

Consolidated Statements of Income

(From April 1, 2013 to Sep 30, 2013)

Thousands of Yen

Net sales	2,634,750
Cost of sales	709,460
Gross profit	1,925,290
Provision for sales returns	42,473
Reversal of provision for sales returns	62,024
Gross profit-net	1,944,841
Selling, general and administrative expenses	1,427,629
Operating income	517,212
Non-operating income	1,855
Non-operating expenses	15,746
Ordinary income	503,321
Extraordinary income	3,195
Extraordinary loss	2,304
Income before income taxes and minority interest	504,213
Income taxes	(71,385)
Income before minority interests	575,598
Quarterly Net income	575,598

Consolidated Statements of Cash Flows

(From April 1, 2013 to Sep 30, 2013)

Thousands of Yen

Cash flows from operating activities	356,374
Cash flows from investing activities	(246,473)
Cash flows from financing activities	(23,697)
Effect of exchange rate changes on cash and cash equivalents	971
Net increase (decrease) in cash and cash equivalents	(12,825)
Cash and cash equivalents at beginning of year	956,836
Cash and cash equivalents at end of period	944,011

Corporate Profile

Overview of Corporation (as of September 30, 2013)

Company Name

SOURCENEXT Corporation

Founded

August 2, 1996

Headquarter

Toranomon 33 Mori Building 6F, 3-8-21
Toranomon Minato-ku, Tokyo 105-0001

Capital

1,771 million yen

Number of Employees

81 (temporary staffs/employees: 3)

Description of Business

Planning, development and distribution
of software and hardware products

Members of the Board

(as of September 30, 2013)

President and CEO
Noriyuki Matsuda

Executive Managing Director
Satomi Matsuda

Director
Fumihiko Aoyama

Director
Tomoaki Kojima

Outside Director
Masaharu Ikuta

Outside Director
Hiroshi Takasawa

Standing Auditor
Shozaburo Takano

Outside Auditor
Hideaki Kubori

Outside Auditor
Tetsuya Kobayashi

Present Shares (as of September 30, 2012)

Total Number of Authorized Shares
90,280,000 shares

Total Number of Issued Shares
31,732,000 shares

Number of Shareholders
3,027

Corporate Philosophy

Meaning of company name:

"To create the next source"

SOURCENEXT Corporation Business Strategies

Goals of Business

**To spread joy and happiness to the people
around the world through products**

Corporate Goals

**To become the world's
most EXCITING company.**

The 3 requirements of "EXCITING"
Must be truthful
Must be appreciated
Must be interesting

Action Guidelines

**To think from a customer's perspective and to be
self-driven in achieving goals.**

Speed

Originality

Universality

Reliability

Challenge

Efficiency

Shareholders' Memo

Fiscal Year

From April 1 to March 31 of the following year

Annual Meeting of Shareholders

June of every year

Record Date

For Annual Shareholders' Meeting: March 31, every year

For Year-end Dividend: March 31, every year

If others are deemed necessary, the dates will be as notified in advance

Shareholder Registry Administrator and Transfer Account Management Institution for Special Accounts

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Group

Shareholder Registry Administrator Office

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Group Transfer Agent Dept.

(Mailing Address) 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063

Sumitomo Mitsui Trust Group Transfer Agent Dept.

(Telephone Number) 0120-782-031

(Internet Homepage URL) <http://www.smtb.jp/personal/agency/index.html>

(Regarding changes in registered address and referencing information regarding shares)

Shareholders who have an account opened with a securities company, who need to make changes to their registered address or need to reference any records, please contact the securities companies for which the account is opened for. For shareholders who do not have an account at any securities company, please make inquiries to the telephone number noted above.

(Regarding Special Accounts)

For shareholders who are not using Japan Securities Depository Center for their electronic stock certificates, we have prepared an account (special account) at the above Tokyo Sumitomo Mitsui Trust Group. For address changes and referrals regarding these special accounts, please contact the above telephone number.

Method of Notification

Notification will be made public electronically (<http://sourcnext.co.jp/>), but in any cases where notification via electronic publication is not possible, the information will be made public through the Nihon Keizai (Nikkei) Shimbun.

Securities Code

4344

Traded

Tokyo Stock Exchange (First Section)



SOURCENEXT CORPORATION

Toranomon 33 Mori Building 6F, 3-8-21 Toranomon Minato-ku, Tokyo 105-0001
TEL: 81-3-6430-6406

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