Uzabase, Inc. and Subsidiaries

Consolidated Financial Statements for the Year Ended December 31, 2020 (Unaudited)

Uzabase, Inc. and Subsidiaries

Consolidated Balance Sheet
December 31, 2020 （Unaudited）

ASSETS	Millions of Yen 2020	Millions of Yen 2019
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	¥ 7,513	¥ 7,954
Trade notes and accounts receivable (Note 3)	984	1,916
Other current assets	748	378
Allowance for doubtful receivables (Note 3)	(19)	(24)
Total current assets	9,226	10,224
PROPERTY AND EQUIPMENT:		
Buildings	557	374
Tools, furniture and fixtures	432	395
Other	4	5
Total	993	775
Accumulated depreciation	(438)	(430)
Net property and equipment	554	344
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 3)	1,219	694
Goodwill	811	8,870
Deferred tax assets (Note 8)	3,226	221
Other	875	602
Total investments and other assets	6,133	10,389
TOTAL	¥ 15,915	¥ 20,958

Uzabase, Inc. and Subsidiaries

Consolidated Balance Sheet
December 31, 2020 （Unaudited）

LIABILITIES AND EQUITY	Millions of Yen 2020		Millions of Yen 2019	
CURRENT LIABILITIES:				
Trade accounts payable (Note 3)	¥	370	¥	319
Current portion of long-term loans (Notes 3 and 4)		865		1,226
Other payables (Note 3)		543		598
Income taxes payable (Note 3)		141		730
Unearned revenue		1,962		1,210
Other current liabilities		1,340		1,045
Total current liabilities		5,222		5,131
LONG-TERM LIABILITIES:				
Long-term debts (Notes 3 and 4)		3,447		8,654
Other		126		40
Total long-term liabilities		3,573		8,695
EQUITY (Notes 6 and 7):				
Common stock—authorized, 104,000,000 shares; issued, 36,533,502 shares and 32,949,578 shares in 2020 and 2019, respectively		7,170		4,096
Capital surplus		6,105		3,029
Stock acquisition rights		14		10
Accumulated deficit		(7,478)		(1,006)
Treasury stock—at cost, 258 shares in 2020 and 2019		(0)		(0)
Accumulated other comprehensive income				
Unrealized loss on available-for-sale securities		(2)		(0)
Foreign currency translation adjustment		(21)		(246)
Total		5,787		5,881
Noncontrolling interests		1,330		1,249
Total equity		7,118		7,131
TOTAL	¥	15,915	¥	20,958

See notes to consolidated financial statements.

(Concluded)

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Operations
Year Ended December 31, 2020 （Unaudited）

	Millions of Yen			
	2020		2019	
NET SALES	¥	13,809	¥	12,521
COST OF SALES		6,216		5,321
Gross profit		7,592		7,200
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)		7,488		8,437
Operating income (loss)		104		(1,236)
OTHER INCOME (EXPENSES):				
Interest and dividend income		7		6
Interest expense		(88)		(97)
Gain on reversal of stock acquisition rights		—		311
Gain on a step acquisition		104		—
Impairment loss (Note 4)		(7,810)		(12)
Loss on sale of a subsidiary's stock (Note 2)		(1,042)		—
Business restructuring costs (Note 10)		(279)		—
Other		(362)		(101)
Other (expenses) income—net		(9,470)		105
LOSS BEFORE INCOME TAXES		(9,366)		(1,130)
INCOME TAXES (Note 8)				
Current		232		822
Deferred		(3,004)		(202)
Total income taxes		(2,771)		619
NET LOSS		(6,594)		(1,750)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		(122)		(130)
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	¥	(6,472)	¥	(1,620)

	Yen			
PER SHARE OF COMMON STOCK (Note 2.p):				
Basic net loss	¥	(186.58)	¥	(51.35)

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended December 31, 2020 （Unaudited）

	Millions of Yen			
	2020		2019	
NET LOSS	¥	(6,594)	¥	(1,750)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 11):				
Unrealized loss on available-for-sale securities		(1)		(0)
Foreign currency translation adjustment		225		(195)
Total other comprehensive income (loss)		223		(196)
COMPREHENSIVE LOSS	¥	(6,371)	¥	(1,946)
TOTAL COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Owners of the parent	¥	(6,244)	¥	(1,816)
Noncontrolling interests		(127)		(130)

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended December 31, 2020 （Unaudited）

	Thousands	Millions of Yen									
							Accumulated Other Comprehensive Income				
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings (Accumulated Deficit)	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustment	Total	Non-controlling Interests	Total Equity
BALANCE, JANUARY 1, 2019	30,892	¥ 2,731	¥ 1,683	¥ 616	¥ 897	¥ (0)	¥ 0	¥ (51)	¥ 5,878	¥ 438	¥ 6,316
Net loss attributable to owners of the parent	—	—	—	—	(1,620)	—	—	—	(1,620)	—	(1,620)
Issuance of new shares (Note 6)	1,177	1,189	1,189	—	—	—	—	—	2,378	—	2,378
Exercise of stock acquisition rights (Note 7)	879	175	175	—	—	—	—	—	350	—	350
Purchase of treasury stock	(0)	—	—	—	—	(0)	—	—	(0)	—	(0)
Change in ownership interests of a subsidiary due to additional acquisition of shares	—	—	(23)	—	—	—	—	—	(23)	—	(23)
Effect of change in the closing date of a subsidiary (Note 2.a)	—	—	—	—	(283)	—	—	—	(283)	—	(283)
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	4	—	—	—	—	—	4	—	4
Net change in the year	—	—	—	(605)	—	—	(0)	(195)	(801)	811	9
BALANCE, DECEMBER 31, 2019	32,949	4,096	3,029	10	(1,006)	(0)	(0)	(246)	5,881	1,249	7,131
Net loss attributable to owners of the parent	—	—	—	—	(6,472)	—	—	—	(6,472)	—	(6,472)
Issuance of new shares (Note 6)	3,348	3,046	3,046	—	—	—	—	—	6,092	—	6,092
Exercise of stock acquisition rights (Note 7)	235	28	28	—	—	—	—	—	56	—	56
Change in the parent's ownership interest due to transactions with noncontrolling interests	—	—	1	—	—	—	—	—	1	—	1
Net change in the year	—	—	—	4	—	—	(1)	225	227	81	308
BALANCE, DECEMBER 31, 2020	36,533	¥ 7,170	¥ 6,105	¥ 14	¥ (7,478)	¥ (0)	¥ (2)	¥ (21)	¥ 5,787	¥ 1,330	¥ 7,118

See notes to consolidated financial statements.

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2020 （Unaudited）

	Millions of Yen	
	2020	2019
OPERATING ACTIVITIES:		
Loss before income taxes	¥ (9,366)	¥ (1,130)
Adjustments for:		
Income taxes—paid	(1,001)	(379)
Depreciation and amortization	280	192
Impairment loss	7,810	12
Amortization of goodwill	533	632
Loss on sale of a subsidiary's stock	1,042	—
Gain on reversal of stock acquisition rights	—	(311)
Gain on a step acquisition	(104)	—
Changes in assets and liabilities:		
Decrease in notes and accounts receivable	612	565
(Decrease) increase in accrued expenses	(113)	11
Increase in unearned revenue	754	437
Increase in advances received	303	62
Increase in consumption taxes payable	106	104
Other—net	171	(137)
Total adjustments	10,393	1,191
Net cash provided by operating activities	1,026	60
INVESTING ACTIVITIES:		
Payments into time deposits	(672)	—
Proceeds from withdrawal from time deposits	600	—
Purchases of property and equipment	(404)	(105)
Purchases of intangible assets	(330)	(125)
Purchases of investment securities	(604)	(473)
Payments for purchase of newly-consolidated subsidiaries' stock (Note 12)	(170)	(43)
Payments for sale of a subsidiary's stock resulting in a change in the scope of consolidation (Note 12)	(451)	—
Other—net	6	(103)
Net cash used in investing activities	(2,028)	(851)
FINANCING ACTIVITIES:		
Proceeds from long-term loans	1,500	6,500
Repayments of long-term loans	(7,037)	(6,092)
Payments for redemption of bonds	(102)	(102)
Proceeds from issuance of new shares	6,043	2,077
Proceeds from limited partners of investment partnership	210	923
Other—net	(0)	(23)
Net cash provided by financing activities	613	3,282
FORWARD	¥ (387)	¥ 2,492

(Continued)

Uzabase, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2020 （Unaudited）

	Millions of Yen	
	2020	2019
FORWARD	¥ (387)	¥ 2,492
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(53)	(12)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(441)	2,480
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,954	5,725
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO CHANGE IN THE CLOSING DATE OF A SUBSIDIARY (Note 2.a)	—	(251)
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,513	¥ 7,954

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects from International Financial Reporting Standards ("IFRS") as to the application and disclosure requirements.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2019 consolidated financial statements to conform to the classifications used in 2020.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Uzabase, Inc. (the "Company") is incorporated and operates. The Japanese yen amounts in millions are rounded down to the nearest million. An amount less than one million but not null is stated as "0," whereas "—" represents null.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and all subsidiaries (together, the "Group"). Number of subsidiaries as of December 31, 2020 and 2019, was 15 and 18, respectively. Significant subsidiaries as of December 31, 2020, were: (1) Uzabase China Limited, (2) Mimir Inc. ("Mimir"), (3) NewsPicks, Inc., (4) NewsPicks Studios, Inc., (5) AlphaDrive Co., Ltd. ("AlphaDrive"), (6) INITIAL, Inc., (7) FORCAS, Inc., (8) UB Ventures, Inc., (9) UBV Fund-I Investment Partnership ("UBV Fund"), and (10) Uzabase USA, Inc. ("Uzabase USA").

Mimir, which was an associated company accounted for by the equity method in 2019, has been consolidated since 2020 because the Company additionally acquired Mimir shares. The Company newly established Uzabase USA in 2020.

In 2020, Quartz Media, Inc. ("Quartz") and Quartz Intermediate Holdings, Inc. ("Quartz Holdings," formerly known as Uzabase USA, Inc., which is different from the Uzabase USA in the preceding paragraph), NewsPicks USA, LLC ("NewsPicks USA") and other two subsidiaries were deconsolidated due to transfer of shares. Details are discussed in Note 14, "Business Combinations."

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Since Mimir became a subsidiary of the Company in 2020, the Company does not have any associated companies accounted for by the equity method as of December 31, 2020.

Practical Issues Task Force ("PITF") No. 20, "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations," which was issued by Accounting Standards Board of Japan ("ASBJ"), clarifies how the control and influence concept should be practically applied to the consolidation scope of collective investment vehicles, such as limited partnerships, Tokumei-Kumiai and other entities with similar characteristics. The Company applied this task force and has consolidated UBV Fund since 2018.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of no more than 15 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The closing date of the subsidiaries is December 31. Prior to the year ended December 31, 2020, the closing date of AlphaDrive and its subsidiary was June 30 and they provisionally closed their accounts to prepare financial statements that form the basis of consolidated financial statements. Effective the year ended December 31, 2020, such subsidiaries changed their closing date to December 31.

In 2019, NewsPicks USA changed its closing date for consolidation from September 30 to December 31 in order to prepare consolidated financial statements more appropriately. In relation to this change, the profit and loss of NewsPicks USA for the three months from October 1, 2018 to December 31, 2018, were directly charged to retained earnings.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements***—Under PITF No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" issued by ASBJ, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRSs or generally accepted accounting principles in the United States of America ("U.S. GAAP," Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method***—ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRSs or U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

d. ***Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. ***Cash Equivalents***—Cash equivalents are short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and exposed to insignificant risk of changes in value.

f. ***Marketable and Investment Securities***—Under Japanese GAAP, marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

The Group did not have any marketable securities as of December 31, 2020 and 2019.

All investment securities held by the Group as of December 31, 2020 and 2019, were available-for-sale securities.

g. ***Property and Equipment***—Property and equipment are stated at cost. Depreciation of property and equipment is computed by the declining-balance method based on the estimated useful lives of the assets, whereas the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016.

The range of estimated useful lives is principally from 4 to 5 years for buildings and from 3 to 10 years for tools, furniture and fixtures.

h. ***Impairment of Long-Lived Assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Assets are principally grouped based on managerial accounting categories of each business. Software used in the administrative department of the Company is classified as a corporate asset because it does not generate independent cash inflows.

i. ***Intangible Assets***—Software for internal use is amortized by the straight-line method over a period of no more than five years, based on the estimated useful life of the software.

j. ***Allowance for Doubtful Receivables***—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

k. ***Stock Options***—The cost of employee stock options is measured based on the fair value at the date of grant and recognized as compensation expense over the vesting period as consideration for receiving goods or services. In the consolidated balance sheets, stock options are presented as stock acquisition rights as a separate component of equity until exercised.

l. ***Leases***—Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

Leased assets of the Group mainly comprise multifunction copiers. No lease transactions were significant for the years ended December 31, 2020 and 2019.

m. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

n. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

o. ***Foreign Currency Financial Statements***—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

p. ***Per Share Information***—Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

The weighted-average number of shares for the years ended December 31, 2020 and 2019, was 34,691,090 shares and 31,560,269 shares, respectively.

Diluted net income per share for the years ended December 31, 2020 and 2019, is not disclosed, as it is anti-dilutive, given the Group's net loss position.

q. ***New Accounting Pronouncements***

Revenue Recognition—On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" (subsequently revised on March 31, 2020). The core principle of the standard and guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company plans to apply the accounting standard and guidance for annual periods beginning on January 1, 2022, and is in the process of evaluating the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Fair Value Measurement, Implementation Guidance on Accounting Standard for Fair Value Measurement, Accounting Standard for Measurement of Inventories, Accounting Standard for Financial Instruments, and Implementation Guidance on Disclosures about Fair Value of Financial Instruments— On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, “Accounting Standard for Fair Value Measurement,” and ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement.” The basic policy in developing the accounting standard for fair value measurement by the ASBJ was to incorporate the principles of IFRS 13 to ensure the comparability between financial statements. In addition, alternative accounting treatments are provided for common business practices in Japan to the extent that they do not impair comparability.

The New Accounting Standards are effective for the annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2020, or annual periods ending on or after March 31, 2020.

The Company plans to apply the accounting standard and guidance for annual periods beginning on January 1, 2022, and is in the process of evaluating the effects of applying the accounting standard and guidance in future applicable periods.

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections—On March 31, 2020, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections." Purpose of the accounting standard is to provide the outline of adopted accounting policies and procedures if provisions of the related accounting standards are not clarified.

The Company plans to apply the accounting standard from the end of the fiscal year ending December 31, 2021.

Accounting Standard for Disclosure of Accounting Estimates—On March 31, 2020, the ASBJ issued ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates." Purpose of the accounting standard is to disclose information relating to the accounting estimates which are recognized in the financial statements of the current fiscal year and have risk of significant impact on the financial statements of the following year, and to contribute to further understanding of the financial statement users.

The Company plans to apply the accounting standard from the end of the fiscal year ending

December 31, 2021.

Additional information

(1) Withdrawal from Quartz Business

Following the resolution of the Board of Directors' meeting held on November 9, 2020, the Group withdrew from Quartz business. Upon withdrawal, all shares of Quartz Holdings, which holds 100% shares of Quartz, NewsPicks USA, and two other consolidated subsidiaries were transferred to Quartz Holdings, Inc., an entity founded by Mr. Zachary Seward, current Chief Executive Officer of Quartz. Corresponding to the withdrawal, the Group recorded ¥7,810 million of impairment loss for non-current assets including goodwill and ¥1,042 million of loss on sale of a subsidiary's stock. In addition, the Group recorded ¥3,060 million of deferred tax assets for tax loss carryforwards arising in relation mainly to the withdrawal after considering their recoverability.

(2) Effect of the novel coronavirus epidemic on accounting estimates

It is uncertain how the novel coronavirus (COVID-19) pandemic will spread in future and how long it will take time to subside. In making accounting estimates regarding recoverability of deferred tax assets, measurement of investment securities, impairment of property and equipment, and other items, the Group has forecasted future cash flows and future operating environment based on the information currently available at the time of preparing the consolidated financial statements. As a result, the Group has assumed that the negative impact of the COVID-19 pandemic will be limited and insignificant.

However, if the length and economic impact of the COVID-19 pandemic become more significant than the aforementioned assumption, it may affect the Group's financial position, operating results and cash flows in the following years.

3. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group raises funds through bank loans and issuance of bonds. The Group's use of its surplus funds is limited to bank deposits. The Group does not enter into any derivative contracts.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Trade accounts receivable are subject to customer credit risk. Funds raised through long-term loans and bonds are mainly utilized for working capital and have maturities up to seven years and three years, respectively, after the balance sheet date. Long-term loans and bonds are subject to liquidity risk that the Group cannot meet its contractual obligations on their maturities.

(3) *Risk Management for Financial Instruments*

Credit risk management

The Group manages its credit risk from trade notes and accounts receivable on the basis of internal credit management guidelines, which include monitoring of payment terms, due dates and balances of customers to identify and mitigate the default risk of customers.

Liquidity risk management on fund procurement

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The relevant department prepares and updates the cash management plans in a timely manner based on the reports submitted by each department. In addition, the Group maintains a certain level of liquidity on hand.

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Such valuation techniques include certain assumptions. Results may differ if different assumptions are used in the valuation.

Financial instruments whose fair values are readily determinable as of December 31, 2020 and 2019, are as follows:

	Millions of Yen		
	2020		
	Carrying Amount	Fair Value	Unrealized Loss
Assets:			
(1) Cash and cash equivalents	¥ 7,513	¥ 7,513	—
(2) Trade notes and accounts receivable	984	984	—
Total	¥ 8,497	¥ 8,497	—
Liabilities:			
(3) Trade accounts payable	¥ 370	¥ 370	—
(4) Other payables	543	543	—
(5) Income taxes payable	141	141	—
(6) Long-term debt, including current portion	4,308	4,283	¥(24)
Total	¥ 5,363	¥ 5,338	¥(24)

	Millions of Yen		
	2019		
	Carrying Amount	Fair Value	Unrealized Loss
Assets:			
(1) Cash and cash equivalents	¥ 7,954	¥ 7,954	—
(2) Trade notes and accounts receivable	1,916	1,916	—
Total	¥ 9,870	¥ 9,870	—
Liabilities:			
(3) Trade accounts payable	¥ 319	¥ 319	—
(4) Other payables	598	598	—
(5) Income taxes payable	730	730	—
(6) Long-term debt, including current portion	9,879	9,814	¥(64)
Total	¥ 11,528	¥ 11,463	¥(64)

Notes: (1), (2), (3), (4) and (5)—As these items are settled within one year and have fair values approximately equal to their carrying amounts, they are stated at their carrying amounts.

(6)—Long-term debts with variable interest rates are measured at their carrying amount as the interest rate on these loans reflects the market rate in the short term and financial status of the Company has not changed significantly after the transaction and as a result, their market values approximate the carrying amounts. Long-term debts with fixed interest rates are measured at the present value of the total amount of the principal and interest taken as a whole discounted by an expected rate that would be applied to loans with the same terms and conditions.

Financial instruments which do not have quoted market prices and whose fair values are not reliably determinable are not included in the table above. The carrying amounts of such financial instruments as of December 31, 2020 and 2019, are as follows:

	Millions of Yen	
	2020	2019
Investment securities:		
Unlisted equity securities—available-for-sale securities	¥ 792	¥ 571
Unlisted debt securities—available-for-sale securities	258	—
Stock acquisition rights	140	100
Investments in investment partnerships	27	23
	¥ 1,219	¥ 694
Investment in associated companies (Note)	—	—

Note: The carrying amount of investments in Mimir as of December 31, 2019 was zero because the cumulative losses of Mimir recognized by the Company under the equity method exceeded the amount of investments in Mimir. As discussed in Note 2, Mimir became a subsidiary during the year ended December 31, 2020.

The Group did not have any investment securities whose fair values are readily determinable as of December 31, 2020 and 2019.

(Concluded)

A maturity analysis for financial assets as of December 31, 2020 and 2019, is as follows:

December 31, 2020		Due in 1 Year Millions of Yen
Cash and cash equivalents	¥	7,513
Trade notes and accounts receivable		984
Total	¥	8,497

December 31, 2019		Due in 1 Year Millions of Yen
Cash and cash equivalents	¥	7,954
Trade notes and accounts receivable		1,916
Total	¥	9,870

4. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of December 31, 2020 and 2019, and, as a result, the Group recognized an impairment loss of ¥7,810 million and ¥12 million, respectively. The details are as follows:

Year Ended December 31, 2020

		Millions of Yen
Quartz (the United States of America):		
Operating assets		
Buildings	¥	36
Tools, furniture and fixtures		7
Other		9
Goodwill		6,660
NewsPicks USA (the United States of America)—Goodwill		1,097
Quartz News Limited (Hong Kong)—Tools, furniture and fixtures		0
Quartz News Ltd (the United Kingdom)—Tools, furniture and fixtures		0

The carrying amount of the assets in the table above was written down to zero in relation to the withdrawal from Quartz business as discussed in Note 2 "Additional Information."

Year Ended December 31, 2019

		Millions of Yen
The Company (Minato-ku, Tokyo)—Software	¥	12

The software in the table above, which had been used in the administrative department of the Company, was written down to zero because the Company ceased to use the software.

5. LONG-TERM DEBTS

Long-term debts as of December 31, 2020 and 2019, consisted of the following:

	Millions of Yen	
	2020	2019
Unsecured 0.02% bonds #1 due serially 2023	¥ 150	¥ 210
Unsecured 0.02% bonds #2 due serially 2023	126	168
Long-term bank loans, due serially to 2027	4,032	9,501
Obligations under finance leases	4	1
Total	4,312	9,881
Less current portion	(865)	(1,226)
Long-term debt, less current portion	¥ 3,447	¥ 8,654

The weighted-average interest rates of long-term bank loans as of December 31, 2020 and 2019, were approximately 1.2% and 1.5%, respectively.

Annual maturities of long-term debt as of December 31, 2020, were as follows:

Year Ending December 31	Millions of Yen
2021	¥ 865
2022	1,303
2023	953
2024	596
2025	472
2026 and thereafter	121
Total	¥ 4,312

As of December 31, 2020, time deposits of ¥71 million were pledged as collateral for bank guarantees.

The Group has commitment line agreements and a term loan agreement with a commitment period with two financial institutions in order to raise funds flexibly. The total amount of the maximum amounts of the committed lines of credit granted and the term loan, outstanding balance, and remaining balance as of December 31, 2020 and 2019, were as follows:

	Millions of Yen	
	2020	2019
Total amount of the maximum amount of the committed lines of credit and the term loan	¥ 3,000	¥ 500
Outstanding balance	1,500	—
Remaining balance	¥ 1,500	¥ 500

6. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective March 28, 2019. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

On December 2, 2019, in accordance with the resolution of the Board of Directors' meeting held on November 13, 2019, the Company issued 193,000 shares of common stock through a third-party allotment to shareholders of AlphaDrive in the course of acquisition of AlphaDrive shares. The issue price was ¥1,963 per share and the total amount of issuance was ¥378 million. As a result, common stock and capital surplus increased by ¥189 million each.

On December 24, 2019, in accordance with the resolution of the Board of Directors' meeting held on December 5, 2019, the Company issued 984,700 shares of common stock through a third-party allotment to TOKYO BROADCASTING SYSTEM HOLDINGS, INC. ("TBSH") in the course of business alliance agreement with TBSH. The issue price was ¥2,031 per share and the total amount of issuance was ¥1,999 million. As a result, common stock and capital surplus increased by ¥999 million each.

On April 16, 2020, in accordance with the resolution of the Board of Directors' meeting held on March 25, 2020, the Company issued 657,400 shares of common stock through a third-party allotment to MITSUBISHI ESTATE CO., LTD. The issue price was ¥1,521 per share and the total amount of issuance was ¥999 million. As a result, common stock and capital surplus increased by ¥499 million each.

On July 27, 2020, according to the resolution of the Board of Directors' meeting held on July 9, 2020, the Company issued 2,691,000 shares of its common stock by way of an international offering. The issue price was ¥1,892.54 per share and the total amount of issuance was ¥5,092 million. As a result, common stock and capital surplus increased by ¥2,546 million each.

7. STOCK OPTIONS

Sock compensation expenses for the year ended December 31, 2019, were ¥0 million. No such expense was recorded for the year ended December 31, 2020.

Gain on reversal of stock acquisition rights for the year ended December 31, 2019, was ¥311 million. No such gain was recorded for the year ended December 31, 2020.

Number of shares has been retrospectively adjusted to reflect stock splits conducted in the prior years.

(Concluded)

Stock options outstanding as of December 31, 2020, after retroactively adjusted for stock splits, were as follows:

The Company

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
Stock Option #4	1 director 26 employees	391,860 shares	May 4, 2013	¥70	From May 5, 2013 to May 3, 2023
Stock Option #5	2 directors 1 corporate auditor 47 employees	1,383,060 shares	April 30, 2014	¥84	From May 1, 2014 to March 28, 2024
Stock Option #8	71 employees	518,976 shares	July 1, 2015	¥292	From July 2, 2015 to March 27, 2025
Stock Option #9	1 corporate auditor 16 employees 20 employees of subsidiaries	279,840 shares	January 5, 2016	¥292	From January 6, 2016 to December 18, 2025
Stock Option #11	19 employees 4 directors of subsidiaries 11 employees of subsidiaries	548,400 shares	July 19, 2016	¥292	From July 20, 2016 to December 18, 2025
Stock Option #12	10 employees 8 employees of subsidiaries	115,224 shares	July 19, 2016	¥292	From July 20, 2016 to December 18, 2025
Stock Option #20	1 employee	3,300 shares	December 31, 2019	¥2,134	From February 15, 2023 to June 30, 2026
Stock Option #21	2 directors of subsidiaries	49,700 shares	December 31, 2019	¥2,134	From February 15, 2023 to June 30, 2026
Stock Option #22	1 employee	3,300 shares	December 31, 2019	¥2,134	From February 15, 2022 to June 30, 2025
Stock Option #23	2 directors of subsidiaries	49,700 shares	December 31, 2019	¥2,134	From February 15, 2022 to June 30, 2025
Stock Option #24	1 employee	3,300 shares	December 31, 2019	¥2,134	From February 15, 2022 to June 30, 2025
Stock Option #25	2 directors of subsidiaries	59,600 shares	December 31, 2019	¥2,134	From January 1, 2021 to June 30, 2025

(Concluded)

Notes: 1. At the time of exercise, the holder of the stock options shall occupy the position of a director, corporate auditor, or employee of the Company or the Company's affiliates unless otherwise approved by the Board of Directors of the Company. For Stock Option #20, #22 and #24, the position of the holder at the time of exercise shall be as same as that on the grant date or higher.

2. The stock options do not have any service-period requirements for vesting.

3. Notwithstanding the exercise period, Stock Option #4, #5, #8, #9, #11 and #12 become exercisable on the stipulated date under the respective stock acquisition right allotment agreements between the Company and the right holders. Stock Option #5, #9 and #11 shall be tax-qualified to become exercisable on the stipulated date. The dates stipulated under such agreements are summarized as follows:

Stock Option Series	Designated Time
Stock Option #4	May 5, 2015
Stock Option #5	May 1, 2016
Stock Option #8	July 2, 2017
Stock Option #9	January 6, 2018
Stock Option #11	July 20, 2018
Stock Option #12	July 20, 2018

4. Vesting conditions of Stock Option #20 through #25 are subject to future operating results and the amount of market capitalization of the Company.

(1) If Adjusted EBITDA (see below*) for the any of specified fiscal years exceeds amounts in the table below, the right holders may exercise the stock option. The following table summarizes such vesting conditions:

* Adjusted EBITDA is calculated by adding back depreciation and amortization, amortization of goodwill, and stock compensation expenses to operating income on a consolidated basis.

Stock Option Series	Amount of Adjusted EBITDA	Fiscal Year Ending December 31
Stock Option #20 and #21	¥10,000 million	2022 through 2024
Stock Option #22 and #23	¥6,000 million	2021 through 2023
Stock Option #24 and #25	¥2,000 million	2021 through 2023

(2) In addition to (1) above, if the average amount of market capitalization for any of 20 consecutive days ending on any of the specified dates that belong to the designated period under the stock option plans exceeds the specified amount in the table below, the right holders may exercise the stock option from that day onward. The following table summarizes such vesting conditions:

Stock Option Series	Amount of Market Capitalization	Designated Period to Which the Specified Dates Belong
Stock Option #20 and #21	¥500,000 million	From January 1, 2022 to March 31, 2025
Stock Option #22 and #23	¥300,000 million	From January 1, 2021 to March 31, 2024
Stock Option #24 and #25	¥200,000 million	From January 1, 2021 to March 31, 2024

5. Stock Option #25 has the following additional conditions to vest:

    (1) One-fourth of the total options vest on the day a year has passed from the grant date and one over forty-eight vest each month thereafter.

    (2) The non-vested options are forfeited upon termination of employment.

    (3) All non-vested options vest when both of the two conditions discussed in Note 4(1) and (2) above are met.

6. Stock Option #20 and #22 involve considerations from grantees.

Stock option activity was as follows:

	Stock Option #4	Stock Option #5 (Shares)	Stock Option #8
Year Ended December 31, 2019			
Non-vested			
No activity			
Vested			
January 1, 2019—Outstanding	178,740	816,264	236,064
Vested	—	—	—
Exercised	(11,808)	(284,784)	(49,932)
Canceled	—	—	—
December 31, 2019—Outstanding	166,932	531,480	186,132
Year Ended December 31, 2020			
Non-vested			
No activity			
Vested			
December 31, 2019—Outstanding	166,932	531,480	186,132
Vested	—	—	—
Exercised	(21,984)	(37,008)	(67,056)
Canceled	—	—	—
December 31, 2020—Outstanding	144,948	494,472	119,076
Exercise price	¥70	¥84	¥292
Average stock price at exercise	¥2,168	¥2,248	¥2,433
Fair value at grant date	—	—	—

	Stock Option #9	Stock Option #11 (Shares)	Stock Option #12
Year Ended December 31, 2019			
Non-vested			
No activity			
Vested			
January 1, 2019—Outstanding	151,752	338,400	61,128
Vested	—	—	—
Exercised	(26,928)	(84,900)	(18,120)
Canceled	—	—	—
December 31, 2019—Outstanding	124,824	253,500	43,008
Year Ended December 31, 2020			
Non-vested			
No activity			
Vested			
December 31, 2019—Outstanding	124,824	253,500	43,008
Vested	—	—	—
Exercised	(37,776)	(74,700)	—
Canceled	—	—	—
December 31, 2020—Outstanding	90,048	178,800	43,008
Exercise price	¥292	¥292	¥292
Average stock price at exercise	¥2,261	¥2,344	—
Fair value at grant date	—	—	—

	Stock Option #20	Stock Option #21 (Shares)	Stock Option #22
Year Ended December 31, 2019			
Non-vested			
January 1, 2019—Outstanding	—	—	—
Granted	3,300	49,700	3,300
Forfeited	—	—	—
Vested	—	—	—
December 31, 2019—Outstanding	3,300	49,700	3,300
Vested			
No activity			
Year Ended December 31, 2020			
Non-vested			
December 31, 2019—Outstanding	3,300	49,700	3,300
Granted	—	—	—
Forfeited	—	(49,700)	—
Vested	—	—	—
December 31, 2020—Outstanding	3,300	—	3,300
Vested			
No activity			
Exercise price	¥2,134	¥2,134	¥2,134
Average stock price at exercise	—	—	—
Fair value at grant date	¥1,087	¥1,087	¥987

	Stock Option #23	Stock Option #24	Stock Option #25
		(Shares)	
Year Ended December 31, 2019			
Non-vested			
January 1, 2019—Outstanding	—	—	—
Granted	49,700	3,300	59,600
Forfeited	—	—	—
Vested	—	—	—
December 31, 2019—Outstanding	49,700	3,300	59,600
Vested			
No activity			
Year Ended December 31, 2020			
Non-vested			
December 31, 2019—Outstanding	49,700	3,300	59,600
Granted	—	—	—
Forfeited	(49,700)	—	(59,600)
Vested	—	—	—
December 31, 2020—Outstanding	—	3,300	—
Vested			
No activity			
Exercise price	¥2,134	¥2,134	¥2,134
Average stock price at exercise	—	—	—
Fair value at grant date	¥987	¥987	¥923

(Concluded)

Assumptions Used to Measure the Fair Value of Stock Options Granted During the Year Ended December 31, 2020

No stock options were granted during the year ended December 31, 2020.

Estimation of the Number of Vested Stock Options

Number of options that will expire in the future is estimated considering vesting conditions and other factors of the stock options.

Total Amount of the Intrinsic Values of Stock Options

The total amount of the intrinsic values of the stock options as of December 31, 2020, and the total amount of the intrinsic values of the stock options that were exercised during the year ended December 31, 2020, at the date of grant were ¥3,654 million and ¥491 million, respectively.

Additional information on stock options

On January 12, 2018, the ASBJ issued PITF No. 36, "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions," which requires transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions to be accounted for in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." PITF No. 36 is effective for annual periods beginning on or after April 1, 2018. The Company adopted PITF No. 36 prospectively as of April 1, 2018, and continued to account for the transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions that occurred prior to the application of PITF No. 36 in accordance with the accounting policy previously applied.

The outline of the Company's accounting policies for such stock acquisition rights is as follows:

1. Before vesting

   (1) Payment from an employee as a consideration for stock acquisition rights is recognized as a stock acquisition right as a separate component of equity.

   (2) If a stock acquisition right is forfeited, gain on reversal of stock acquisition right is recognized.

2. After vesting

   (1) Upon new share issuance due to exercise of a stock acquisition right, the stock acquisition right is transferred to share capital.

   (2) If a stock acquisition right is cancelled, gain on reversal of stock option is recognized in the year when the cancellation is confirmed.

A summary of these transactions that occurred prior to the adoption of PITF No. 36 is as follows.

Stock options, which involve considerations, with vesting conditions outstanding as of December 31, 2020, after retroactively adjusted for stock splits, were as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
Stock Option #13	1 director 28 employees 4 directors of subsidiaries 14 employees of subsidiaries	571,200 shares	June 19, 2017	¥1,263	From April 1, 2023 to June 18, 2027
Stock Option #14	1 director 28 employees 4 directors of subsidiaries 14 employees of subsidiaries	571,200 shares	June 19, 2017	¥1,263	From April 1, 2022 to June 18, 2027
Stock Option #15	1 director 28 employees 4 directors of subsidiaries 14 employees of subsidiaries	571,200 shares	June 19, 2017	¥1,263	From April 1, 2021 to June 18, 2027
Stock Option #16	20 employees 4 directors of subsidiaries 21 employees of subsidiaries	732,500 shares	March 31, 2018	¥2,226	From February 15, 2019 to July 31, 2024
Stock Option #17	20 employees 4 directors of subsidiaries 21 employees of subsidiaries	732,500 shares	March 31, 2018	¥2,226	From February 15, 2019 to July 31, 2024

Notes: 1. The holder of the stock options shall occupy the position of a director, corporate auditor, or employee of the Company or the Company's affiliates unless otherwise approved by the Board of Directors of the Company at the time designated by the respective stock option plans, which is summarized as follows:

Stock Option Series	Designated Time
Stock Option #13	On December 31, 2021
Stock Option #14	On December 31, 2021
Stock Option #15	On December 31, 2019
Stock Option #16	At the time of exercise
Stock Option #17	At the time of exercise

For Stock Option #16 and #17, the position of the holder at the time of exercise shall be as same as that on the grant date or higher.

2. The stock options do not have any service-period requirements for vesting.

3. Vesting conditions of the stock options are subject to future operating results and the amount of market capitalization of the Company.

(1) If Consolidated EBITDA (see below*) for any of the specified fiscal years exceeds the amounts in the table below, the right holders may exercise the stock option. The following table summarizes such vesting conditions:

* Consolidated EBITDA is calculated by adding back depreciation and amortization, and amortization of goodwill to operating income on a consolidated basis.

Stock Option Series	Amount of Consolidated EBITDA	Fiscal Year Ending December 31
Stock Option #13	¥1,000 million	2022 or 2023
Stock Option #14	¥1,000 million	2021 or 2022
Stock Option #15	¥1,000 million	2020 or 2021
Stock Option #16	¥2,000 million	2018 through 2023
Stock Option #17	¥1,500 million	2018 through 2023

(Concluded)

(2) In addition to (1) above, if the average amount of market capitalization for any of 20 consecutive days ending on any of the specified dates that belong to the designated period under the stock option plans exceeds the specified amount in the table below, the stock option right holders may exercise a certain portion of the stock option from that day onward. The following table summarizes such vesting conditions:

Stock Option Series	Amount of Market Capitalization	Designated Period to Which the Specified Dates Belong
Stock Option #13	(a) If amount of market capitalization exceeds ¥100,000 million: 100% exercisable	From January 1, 2022 to December 31, 2023
	(b) If amount of market capitalization exceeds ¥80,000 million: 50% exercisable	
Stock Option #14	(a) If amount of market capitalization exceeds ¥75,000 million: 100% exercisable	From January 1, 2021 to December 31, 2022
	(b) If amount of market capitalization exceeds ¥60,000 million: 50% exercisable	
Stock Option #15	(a) If amount of market capitalization exceeds ¥50,000 million: 100% exercisable	From January 1, 2020 to December 31, 2021
	(b) If amount of market capitalization exceeds ¥40,000 million: 50% exercisable	
Stock Option #16	If amount of market capitalization exceeds ¥200,000 million: 100% exercisable	From January 1, 2019 to June 30, 2024
Stock Option #17	If amount of market capitalization exceeds ¥150,000 million: 100% exercisable	From January 1, 2019 to June 30, 2024

Stock option activity of stock acquisition rights, which involve considerations, with vesting conditions after retroactively adjusted for stock splits, was as follows:

	Stock Option #13	Stock Option #14	Stock Option #15
		(Shares)	
Year Ended December 31, 2019			
Non-vested			
January 1, 2019—Outstanding	560,000	560,000	560,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
December 31, 2019—Outstanding	560,000	560,000	560,000
Vested			
No activity			
Year Ended December 31, 2020			
Non-vested			
December 31, 2019—Outstanding	560,000	560,000	560,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
December 31, 2020—Outstanding	560,000	560,000	560,000
Vested			
No activity			
Exercise price	¥1,263	¥1,263	¥1,263
Average stock price at exercise	—	—	—

	Stock Option #16	Stock Option #17
	(Shares)	
Year Ended December 31, 2019		
Non-vested		
January 1, 2019—Outstanding	732,500	732,500
Granted	—	—
Forfeited	—	—
Vested	—	—
December 31, 2019—Outstanding	732,500	732,500
Vested		
No activity		
Year Ended December 31, 2020		
Non-vested		
December 31, 2019—Outstanding	732,500	732,500
Granted	—	—
Forfeited	—	—
Vested	—	—
December 31, 2020—Outstanding	732,500	732,500
Vested		
No activity		
Exercise price	¥2,226	¥2,226
Average stock price at exercise	—	—

(Concluded)

8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended December 31, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of December 31, 2020 and 2019, were as follows:

	Millions of Yen	
	2020	2019
Deferred tax assets:		
Enterprise taxes payable	¥ 20	¥ 40
Accrued bonuses	70	95
Depreciation	29	21
Asset retirement obligations	38	12
Accounts receivable	30	21
Tax loss carryforwards	4,279	1,043
Other	26	64
Total of tax loss carryforwards and temporary differences	4,494	1,299
Less valuation allowance for tax loss carryforwards	(1,195)	(1,027)
Less valuation allowance for temporary differences	(30)	(42)
Total valuation allowance	(1,225)	(1,070)
Deferred tax assets	3,269	229
Deferred tax liabilities:		
Asset retirement costs	27	7
Enterprise taxes refundable	12	—
Other	2	0
Deferred tax liabilities	43	7
Net deferred tax assets	¥ 3,226	¥ 221

As of December 31, 2020, valuation allowances increased by ¥155 million as compared to the amount as of December 31, 2019. This was mainly attributable to a combined effect of (a) an increase in tax loss carryforwards of the Company to which the valuation allowances were newly provided and (b) a decrease in temporary differences and the corresponding valuation allowances due to deconsolidation of Quartz, Quartz Holdings, NewsPicks USA and two other subsidiaries through a share transfer in relation to the withdrawal from Quartz business.

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of December 31, 2020, were as follows:

	Millions of Yen						
	A Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Tax loss carryforwards (Note 1)	—	—	—	—	¥9	¥4,269	¥4,279
Valuation allowances	—	—	—	—	—	(1,195)	(1,195)
Deferred tax assets (Note 2)	—	—	—	—	¥9	¥3,074	¥3,084

Notes: 1. The amounts above are determined by multiplying the corresponding tax loss carryforwards by the effective statutory tax rate.

2. The Group recognized deferred tax assets for temporary differences and tax loss carryforwards that were considered to be recoverable, taking account of the expected future taxable income based on the future business plans of the Company and subsidiaries.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying statements of operations for the years ended December 31, 2020 and 2019 is not presented because the Company recorded loss before income taxes for the years ended December 31, 2020 and 2019.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major components of selling, general and administrative expenses for the years ended December 31, 2020 and 2019, are as follows:

	Millions of Yen	
	2020	2019
Salaries	¥ 2,375	¥ 2,730
Advertising	859	794
Depreciation and amortization	241	182
Amortization of goodwill	533	632
Rent	740	683

10. OTHER EXPENSES

During the year ended December 31, 2020, the Group reorganized Quartz business focusing on restructuring the advertising business. As a result, the Group recorded ¥279 million of business restructuring costs for the year ended December 31, 2020.

11. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive (loss) income for the years ended December 31, 2020 and 2019, are as follows:

	Millions of Yen	
	2020	2019
Unrealized loss on available-for-sale securities:		
Losses arising during the year	¥ (2)	¥ (0)
Amount before income tax effect	(2)	(0)
Income tax effect	0	—
Total	¥ (1)	¥ (0)
Foreign currency translation adjustments:		
Losses arising during the year	¥ (241)	¥ (195)
Reclassification adjustments to profit or loss	466	—
Total	¥ 225	¥ (195)
Total other comprehensive income (loss)	¥ 223	¥ (196)

12. ADDITIONAL CASH FLOW INFORMATION

The components of payments for purchase of newly consolidated subsidiaries' stock for the years ended December 31, 2020 and 2019, were as follows:

For the Year Ended December 31, 2020

	Millions of Yen 2020
Mimir	
Current assets	¥ 61
Non-current assets	4
Goodwill	398
Current liabilities	(90)
Non-current liabilities	(65)
Acquisition costs	308
Cash and cash equivalents acquired	(29)
Gain on a step acquisition	(104)
Total issue price of the Company's stock acquisition rights issued for the business combination	(3)
Payments for purchase of newly consolidated subsidiaries' stock	¥ 170

For the Year Ended December 31, 2019

	Millions of Yen 2019
AlphaDrive and a subsidiary	
Current assets	¥ 106
Non-current assets	16
Goodwill	408
Current liabilities	(31)
Non-current liabilities	(0)
Acquisition costs	500
Cash and cash equivalents acquired	(77)
Total issue price of the Company's shares issued for the business combination	(378)
Payments for purchase of newly consolidated subsidiaries' stock	¥ 43

(Concluded)

The components of payments for sale of a subsidiary' stock resulting in a change in the scope of consolidation for the year ended December 31, 2020, were as follows:

For the Year Ended December 31, 2020

	Millions of Yen 2020
Quartz Holdings	
Current assets	¥ 802
Non-current assets	1
Current liabilities	(228)
Foreign currency translation adjustment	446
Loss on sale	(1,042)
Share transfer price	0
Receivable outstanding	(0)
Cash and cash equivalents held by Quartz Holdings	(451)
Payments for sale of a subsidiary' stock resulting in a change in the scope of consolidation	¥ (451)

As a result of the sale of stock, Quartz Holdings, Quartz, NewsPicks USA, and two other consolidated subsidiaries were deconsolidated.

13. RELATED PARTY TRANSACTIONS

For the Year Ended December 31, 2020

Transactions of the Group with a related party for the year ended December 31, 2020, consisted of a sale of a subsidiary's stock to Quartz Media Holdings, Inc. ("QMH"), a company in which a majority of its voting rights is held by a director of a significant subsidiary. Details are as follows:

Upon withdrawal from Quartz business, all shares of Quartz Holdings, which holds 100% shares of Quartz, NewsPicks USA, and two other consolidated subsidiaries were transferred to QMH, an entity founded by Mr. Zachary Seward, current Chief Executive Officer of Quartz. QMH is an entity located in the United States of America of which share capital was $5,625 as of the date of the share transfer. The voting rights ratio of QMH held by Mr. Seward immediately before the share transfer was 88.89%. On November 9, 2020, as a result of the share transfer, Mr. Seward and Quartz ceased to be a related party of the Group and QMH became a holding company of Quartz and other subsidiaries. The transaction price may vary depending on the future operating results and corporate actions of Quartz. The details are not disclosed due to the duty of confidentiality; however, the transaction price was fairly determined through a fair process and negotiation with the transferee. Loss on sale of a subsidiary's stock was ¥1,042 million. No balance outstanding as of December 31, 2020.

For the Year Ended December 31, 2019

Transactions of the Group with a related party for the year ended December 31, 2019, consisted of exercises of stock options by a major individual shareholder of the Company. Details are as follows:

	Millions of Yen 2019
Mr. Ryosuke Niino, a former director of the Company:	
Exercise of stock options	¥ 11
Number of shares issued (thousands of shares)	142
Ownership percentage (%)	21.9%

14. BUSINESS COMBINATIONS

For the Year Ended December 31, 2020

Business Divestiture

a. Outline of the business combination

(1) Name of the transferees

Quartz Intermediate Holdings, Inc. (formerly, Uzabase USA, Inc.), Quartz Media, Inc., NewsPicks USA, LLC and other two companies

(2) Nature of the business

Quartz business (operation of Quartz, a United States-based business media)

(3) Major reason for the business combination

Under the mission of building a global business intelligence infrastructure, the Group has been actively expanding its business beyond Japan, starting with the launch of its SPEEDA business in Asian markets in 2013. As part of this endeavor, in July 2018, the Company acquired Quartz, a global business news media company based in the United States. Following this acquisition, the Company actively invested in Quartz to launch a paid subscription business in addition to its existing advertisement business, and, as a result, the number of paying subscribers were steadily increasing.

However, due to the COVID-19 pandemic, many companies, particularly in the United States, have been putting restraints on their advertising expenditures since the beginning of 2020. In response to this situation, on May 14, 2020, the Company made the decision to execute a business restructuring at Quartz focusing on its advertisement business. Since then, Quartz has operated its business while paying attention to the recovery situation in the advertisement market; however, the recent operating results of Quartz have been lower than the business plan originally projected.

Considering the uncertain outlook of the advertisement market in the United States and the situation where it is difficult to achieve its original target to turn Quartz business profitable in three years as committed at the time of acquisition, in accordance with the internal investment rules and regulations, the Company decided to withdraw from Quartz business by transferring all shares of Quartz Holdings in order to concentrate the Group’s operating resources into SPEEDA and NewsPicks businesses, where higher growths can be expected.

(4) Date of the business divestiture

November 9, 2020

(5) Legal form of business combination

All shares of Quartz Holdings, which owns 100% shares of Quartz and its affiliates, were transferred to QMH, an entity founded by Mr. Zachary Seward, Quartz’s current CEO, who holds a majority of its voting rights.

b. Outline of the accounting treatment

(1) Amount of loss arising from the transfer

Loss on sale of a subsidiary: ¥1,042 million

(2) Carrying amount of assets and liabilities of the transferred business

	Millions of Yen
Current assets	¥ 802
Non-current assets	1
Total	¥ 804
Current liabilities	¥ 228
Non-current liabilities	—
Total	¥ 228

(3) Reportable segment in which the transferred business was included

Quartz business

(4) Approximate amount of profit and loss items of the transferred business included in the consolidated financial statements

	Millions of Yen
Net sales	¥ 973
Operating loss	(1,961)

For the Year Ended December 31, 2019

No significant business combinations occurred in the year ended December 31, 2019.

15. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) *Description of Reportable Segments*

The reportable segments are components of the Group for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors to determine allocation of operating resources and evaluate their performance. The reportable segment information is prepared generally under the same accounting policies as discussed in Note 2. Segment profit is determined based on operating income. Intersegment sales and transfers are determined on an arm's-length basis. The Group does not allocate its assets to the reportable segments.

The Group has four reportable segments, namely, (1) SPEEDA business, (2) NewsPicks business, (3) Quartz business, and (4) Other business.

SPEEDA business provides information to be utilized in business and industry analysis, such as financial data, statistical data and analysis reports, mainly to financial institutions, corporate entities, universities and research institutions via SPEEDA, the Group's online platform. Revenue generated from SPEEDA business mainly comprises initial fees at installation and fixed monthly payment from customers.

NewsPicks business provides a business news platform with social networking features, which enables one-stop view of economic news from various media and articles that the Group has edited and created. Users can read comments from professionals, upload their own comments, and share the news in NewsPicks. Revenue generated from NewsPicks business mainly comprises fixed monthly payment from users and sales of advertisement.

Quartz business operates Quartz, a business media developed in the United States of America. Revenue generated from Quartz business mainly comprises advertisement and solution for clients by utilizing its user base of approximately 20 million excellent readers in North America and other countries all over the world as well as fixed monthly payment from users. Following the resolution of the Board of Directors' meeting held on November 9, 2020, the Group withdrew from Quartz business during the fourth quarter period of the year ended December 31, 2020.

Other business includes INITIAL, a platform that provides a database of startup entities in Japan and FORCAS, a platform that assists business-to-business marketing activities.

(2) Change in Reportable Segments

Effective from the year ended December 31, 2020, the Group has allocated a portion of corporate expenses, which were not previously allocated to the reportable segments, to the reportable segments, based on a reasonable method given the nature and status of each reportable segment in order to better present the operating results of each reportable segment. Segment information for the year ended December 31, 2019, has been restated to reflect this change.

Effective from the year ended December 31, 2020, in order to present the profitability of each reportable segment more appropriately, the Group has disclosed two key performance indicators: Direct EBITDA and Segment EBITDA. Direct EBITDA is calculated by adding depreciation and amortization of intangible assets including goodwill to segment profit or loss, which is equivalent to net sales less Direct Costs (Note 1). Segment EBITDA is calculated by deducting corporate expenses from Direct EBITDA. Corporate expenses are Indirect Costs (Note 2) and are allocated to reportable segments based on net sales of the segment.

Notes: 1. Direct Costs are defined as costs directly attributable to services and business of each reportable segment.

2. Indirect Costs are defined as corporate expenses that are not directly attributable to services and business of each reportable segment. Indirect Costs include costs of being a listed company, audit fees, and executive remuneration.

(3) ***Information about Sales, Profit, and Other Items***

Year ended December 31, 2020

	Millions of Yen							
	2020							
	Reportable Segments							
	SPEEDA Business	NewsPicks Business	Quartz Business	Other Business	Total	Other (Note 2)	Reconciliations (Note 1)	Consolidated
Net sales:								
Sales to external customers	¥5,492	¥5,932	¥ 972	¥ 1,412	¥13,809	—	—	¥ 13,809
Intersegment sales or transfers	16	17	0	9	43	—	¥ (43)	—
Total	¥5,509	¥5,950	¥ 972	¥ 1,421	¥13,853	—	¥ (43)	¥ 13,809
Segment profit (loss)	¥2,282	¥ 711	¥(1,961)	¥ 46	¥ 1,078	¥ (52)	¥ (921)	¥ 104
Depreciation and amortization	34	110	41	17	204	1	74	280
Amortization of goodwill	26	40	452	13	533	—	—	533
Direct EBITDA	¥2,343	¥ 863	¥(1,466)	¥ 76	¥ 1,816	¥ (50)	¥ (847)	¥ 917
Allocation of corporate expenses	(342)	(370)	(60)	(88)	(862)	—	862	—
Segment EBITDA	¥2,000	¥ 492	¥(1,527)	¥ (11)	¥ 953	¥ (50)	¥ 14	¥ 917
Other items:								
Goodwill, end of year	371	361	—	78	811	—	—	811
Impairment losses of assets	—	—	7,810	—	7,810	—	—	7,810

Notes: 1.Reconciliations of segment profit mainly consisted of ¥14 million of eliminations of intersegment transactions and ¥(936) million of general and administrative expenses that are incurred for group-wide corporate operations that are not allocable to the reportable segments.

2. Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

Year ended December 31, 2019

	Millions of Yen						
	2019						
	Reportable Segments						
	SPEEDA Business	NewsPicks Business	Quartz Business	Other Business	Total	Reconciliations (Note)	Consolidated
Net sales:							
Sales to external customers	¥4,530	¥4,177	¥ 2,942	¥ 870	¥12,521	—	¥12,521
Intersegment sales or transfers	12	12	1	0	26	¥ (26)	—
Total	¥4,543	¥4,190	¥ 2,943	¥ 871	¥12,548	¥ (26)	¥12,521
Segment profit (loss)	¥1,785	¥ 429	¥(2,693)	¥(122)	¥ (601)	¥ (635)	¥ (1,236)
Depreciation and amortization	21	40	56	5	123	69	192
Amortization of goodwill	—	6	612	13	632	—	632
Direct EBITDA	¥1,807	¥ 475	¥(2,024)	¥(104)	¥ 154	¥ (566)	¥ (411)
Allocation of corporate expenses	(209)	(193)	(135)	(40)	(579)	579	
Segment EBITDA	¥1,597	¥ 282	¥(2,160)	¥(144)	¥ (424)	¥ 13	¥ (411)
Other items:							
Goodwill, end of year	—	402	8,376	92	8,870	—	8,870
Impairment losses of assets	—	—	—	—	—	12	12

Note: Reconciliations of segment profit mainly consisted of ¥13 million of eliminations of intersegment transactions and ¥(648) million of general and administrative expenses that are incurred for group-wide corporate operations that are not allocable to the reportable segments.

(Concluded)

Related Information

Information about Geographical Areas

a. Net sales

	Millions of Yen	
	2020	2019
Japan	¥ 12,265	¥ 9,053
Asia	612	572
North America	701	2,383
Europe	230	511
Total	¥ 13,809	¥ 12,521

b. Property and equipment

	Millions of Yen
	2019
Japan	¥ 251
Asia	2
North America	89
Europe	0
Total	¥ 344

Property and equipment as of December 31, 2020 is not presented because the total amount of property and equipment located in other than Japan was insignificant.

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Additional Information on the Consolidated Financial Statements

All the figures in the accompanying consolidated financial statements are unaudited.

The accompanying consolidated financial statements are summarized and translated from the original Japanese version submitted to the Tokyo Securities Exchange with certain rearrangements and reclassifications therein.

The consolidated financial statements in the original Japanese Securities Report were audited by Deloitte Touche Tohmatsu whose report, dated March 26, 2021, expressed an unmodified opinion on those consolidated financial statements.