D. Risk Factors.

If any of the risks described below actually occurs, our business, financial condition or results of operations could be adversely affected.

We derive a substantial portion of our net sales from sales of spindle motors for hard disc drives, and a decrease in demand for, or prices of, HDDs could harm our business.

Net sales of spindle motors for HDDs in computers, and digital home appliances, such as DVD recorders, were 29.0%, 25.9% and 23.3% of our total net sales in the fiscal years ended March 31, 2011, 2012, and 2013, respectively. Reduced demand for, or lower prices of, HDDs could result in a decrease in our net sales, adversely affecting our results of operations.

During an economic downturn, manufacturers of HDDs may suspend or reduce purchases of additional inventory from suppliers such as us. The rate of decline in average selling price accelerates when manufacturers lower prices to absorb excess capacity, liquidate excess inventories, restructure or attempt to increase their market share.

Many of our customers implement a just-in-time inventory control system. Accordingly, we generally maintain inventory at or near our customers' production facilities based on estimated demand. A substantial amount of capital and cost is required to maintain inventory sufficient to meet orders from our customers in a timely manner. In addition, our estimates of future customer demand may prove excessive, exposing us to the risk of unsold inventory becoming obsolete and prices of our products being reduced.

Demand for HDDs declined in recent periods and may further decline as a result of a shift in the computer industry to alternative storage technologies, such as solid-state drives, or SSDs. For example, demand for HDDs may further decline if the trend continues or accelerates where small portable PCs using HDDs are replaced by smart phones, tablet devices and other products, using SSDs, with functions overlapping with those of PCs. If the price per memory capacity for SSDs or other alternative technologies is reduced in the future to a level competitive with that for HDDs, demand for HDDs could decline, which in turn could result in reduced sales of our spindle motors.

HDD manufacturers recently did, and may in the future, merge or otherwise restructure their operations and, as part of their restructurings, may seek to reduce costs and inventories. Such restructurings may result in increasing downward pressure on spindle motor prices, which could reduce our margins. Our customers may also re-allocate their procurement orders to our competitors, which could reduce our sales volumes. Such restructurings or similar moves by HDD manufacturers could have a material negative impact on our results of operations.

Because of our dependence on the information storage and communication industry, our business may be adversely affected by a decline in the market.

A substantial portion of our net sales depends on sales of information storage and communication equipment and peripherals that incorporate our products, including small precision motors. Although we have been diversifying our products and entering into new markets, such as motors for use in home appliances and automobiles, we expect to continue to derive a significant portion of our revenues from the sale of products for use in information storage and communication equipment and peripherals. For example, our net sales were negatively affected in the fiscal year ended March 31, 2013 as the markets for HDDs and optical disk drives experienced a significant slowdown due to weaker consumer spending and decreasing demand for traditional disk drive products. The markets for information storage and communication equipment and peripherals may be further affected by:

- rapid technological change,
- emergence of new processes for or approaches to data storage,
- frequent new product introductions and short product life cycles,
- significant price competition and price erosion,
- fluctuating inventory levels,
- over-capacity or capacity constraints due, in part, to cyclical and seasonal market patterns,
- variations in manufacturing costs and yields, and
- significant expenditures for manufacturing equipment and product development.

If any of the foregoing factors leads to a decline in the market for information storage and communication equipment and peripherals, our net sales could decrease, and our results of operations could be materially and adversely affected.

Our customer base is highly concentrated, and our sales would suffer if one or more of our significant customers substantially reduce or cancel orders for our products.

We are dependent on a limited number of large customers for a substantial portion of our net sales. Sales to our largest customer, Western Digital Corporation, including sales to Hitachi Global Storage Technologies, which Western Digital acquired in March 2012, were approximately 13%, 12% and 11% of our total net sales for the fiscal years ended March 31, 2011, 2012 and 2013, respectively. Sales to our second largest customer, Seagate Technology LLC, including sales to the hard disk drive, or HDD, business of Samsung Electronics Co., Ltd., which Seagate Technology acquired in December 2011, were approximately 11%, 10% and 9% of total net sales for the fiscal years ended March 31, 2011, 2012 and 2013, respectively. Our sales to the two largest customers relate to motors used in HDDs for the computer market, which has experienced a significant slowdown due to weaker consumer spending and decreasing demand for traditional disk drive products in recent periods. As a result of customer concentration, our net sales could be significantly impacted in the event of:

- a significant reduction, delay or cancellation of orders from one or more of our significant customers,
- a decision by one or more of our significant customers to select products manufactured or technologies developed by a competitor, or its own internally developed components, for inclusion in future product generations, or
- operating or financial difficulties affecting one or more of our significant customers.

We expect that, for the foreseeable future, sales to a limited number of customers will continue to account for a high percentage of our net sales. If current customers do not continue to place orders, we may not be able to replace those orders with orders from new customers, and this would significantly impact our business, operating results and financial condition.

In addition, because there are only a limited number of hard disk drive manufacturers in the world, if one or more of our customers merge with or are otherwise acquired by another hard disk drive manufacturer, our business could be adversely affected to the extent that the downward pricing pressure increases or actual or potential sales are lost as a result of the surviving manufacturer's decision not to purchase our products.

Because our facilities are concentrated in a limited number of locations, disruptions in one or more of those locations could have a material adverse impact on our business operations.

Our headquarters and key research and development facilities are located in Japan, and our major manufacturing facilities are located in a few countries and regions, including Thailand and China. A large number of companies in the information technology industry, including many of our customers and other companies in our and our customers' supply chains as well as ourselves, are concentrated in those countries and regions, particularly where local governments have implemented policies designed to encourage information technology companies to relocate to their respective jurisdictions. A large-scale natural disaster or political unrest occurring in or affecting those countries or regions or other limitations of those regions could have a material adverse impact on us or the information technology industry on a global basis. The flooding that occurred in Thailand in October 2011, for example, severely disrupted our operations as well as those of our customers and other companies in the supply chains of computer and other information technology products worldwide. Due to the geographic concentration of our facilities, our business is vulnerable to similar events and disruptions, which could have a material adverse impact on our results of operations and financial condition.

We are facing downward pricing pressure in all markets where we provide our products, and price declines could reduce our revenues and gross margins.

We expect downward pricing pressure to continue in all markets where we provide our products. The hard disk drive industry, where competition is particularly harsh, is characterized by rapidly declining selling prices over the life of a product even for those products which are competitive and timely to market. For example, the average unit price of our spindle motors for HDDs on a Japanese yen basis decreased approximately 8% and 7% during the fiscal years ended March 31, 2011 and 2012, respectively, and increased approximately 11% during the fiscal year ended March 31, 2013. On a U.S. dollar basis, the average unit price of our spindle motors for HDDs decreased approximately 1% during the fiscal year ended March 31, 2011, and increased approximately 1% and 5% during the fiscal year ended March 31, 2012 and 2013, respectively. In general, the selling price of a spindle motor decreases over time as the supply of such products increases and as the existing technology becomes obsolete. Also, intense price competition among customers may pressure us to lower the prices of our products while the price of raw materials used in our products may increase due to rising demand for such raw materials in emerging economies, which may make it difficult for us to maintain the current level of profitability. If we are not able to achieve cost reductions, or develop new products with lower production costs, our business, financial condition and results of operations could be adversely impacted.

Also, the general purchaser preference particularly in the computer market is steadily shifting from higher-priced end-products to lower-priced end-products. If this trend further accelerates, or if the trend continues significantly longer than our expectation, there may be additional downward pricing pressure on our products, and our results of operations may be adversely affected.

If raw materials or components for our products are not available in quantities or at prices that we expect, our production could be significantly harmed.

We rely on third party suppliers for some of the raw materials, such as aluminum and rare earth materials, and some of the components, such as connectors, electric circuits, magnets and other unit assemblies, used in our manufacturing processes. Our production capacity will be limited if one or more of these materials or components become unavailable or available in reduced quantities due to increased prices for such materials. Financial or operational disruptions or slowdowns suffered by our principal suppliers or shippers may negatively affect the availability of raw materials or components. In addition, governmental action that adds conditions to the use of raw materials or components or imposes additional disclosure or other regulatory compliance requirements relating to such materials or components may also affect their availability. For example, regulatory developments imposing due diligence and disclosure requirements regarding the use of “conflict” minerals mined from the Democratic Republic of Congo and adjoining countries may limit the pool of suppliers that can provide us with “conflict-free” materials and components or may result in reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of the minerals used in our products.

If the sources or availability of materials or components necessary for our products becomes limited, we may have to devote significant resources to secure alternative suppliers or shippers, find substitutes for such materials or components, or develop designs and technologies that reduce or eliminate the need for such materials or components. If our sources of materials and supplies are unavailable for a significant period of time without any such substitute, design or technology, our operating results will be adversely affected.

We face aggressive competition both in the markets where we supply our main products and in the markets into which we are attempting to expand our business, which could have a material adverse effect on our business and results of operations.

In the markets where we supply our main products, including small precision motors, we are under intensive price competitive pressure to reduce our prices as our competitors attempt to expand their market shares. In the markets in which we are attempting to expand our market share, including the home appliances and automobile parts markets, we compete with competitors that may have larger financial, research and development, manufacturing, sales, marketing and service capabilities and sources of support than we do, and that may also have established market recognition and long-standing customer relationships. In emerging markets, including those for electric and hybrid vehicle control systems, we also face severe competition with other new market entrants as they seek to expand their market share.

To maintain our competitiveness in the markets where we supply our main products, and to enhance our competitiveness in the markets into which we are attempting to expand our business, we believe that we should maintain, or may need to increase, our substantial level of investment in research and development, expand our production, sales and marketing capabilities, enhance services and support, timely develop new products, and further improve our existing products.

We may not be able to successfully compete in all or some of our markets in the future if:

- any of our markets develops faster than our expectations due to rapidly increasing demand or otherwise, causing our market share to decline relative to our competitors who are able to better meet increasing demand or otherwise cope with developing markets;
- we are unable to achieve technological advancement necessary for our products to meet stricter environmental and other regulatory standards and to be accepted in the markets;
- our competitors’ competitive efforts result in technological innovations, improved manufacturing efficiencies or enhanced research and developmental capabilities, rendering our products and technologies obsolete or uncompetitive;
- mergers or consolidations among our competitors result in a relative decline in our competitive position; or
- we are unable to obtain financial, technological, human and other resources necessary to maintain or enhance our investments.

Our failure to maintain or enhance our competitive position could result in reduced profitability.

We may be unable to commercialize customized products that satisfy customers’ needs, or our customers may be unable to commercialize products that incorporate our products, which could damage our reputation and reduce sales.

Our customers generally require us to provide customized products within a set delivery timetable. If we are unable to commercialize new product lines including design, manufacture and delivery of customized products, we will not be able to meet our customers’ needs. Our customers are increasingly demanding that we provide them with more complex products on a shorter timetable. Any future failure to meet significant customer requirements could damage our reputation, result in a decline in our market share and reduction of our sales and profit ratio, and impede the business development of these new products and the expansion of the products’ markets.

In addition, if a customer fails to successfully commercialize or sell products that incorporate in them any customized product which we have invested significant resources to develop, our business and results of operations would be materially adversely affected.

If any defect is discovered in our products, or if any of the end-products in which our products are incorporated malfunctions, our reputation and results of operations may suffer by lost sales or costs associated with recalls or management distraction.

We manufacture complex, state-of-the-art motors and other electronic products and, as a result, are exposed to potential warranty and product liability claims arising from alleged or actual defects in our products in the normal course of business. In particular, widespread malfunction of any end-product in which our products are incorporated may lead to consumer dissatisfaction, recalls and, potentially, lawsuits. In the automobile motor and other parts markets, where we seek to expand our business, strict safety standards are imposed by applicable regulations and demanded by the public as malfunctioning vehicles could result in serious property damage, personal injuries and even death. If such malfunction is caused by or attributed or alleged to be attributed to defects in our products, our brand image could be damaged, we might be subject to adverse regulatory action or drawn into disputes with our customers, or our results of operations might be adversely affected by lost sales or costs associated with recalls. In addition, significant financial and human resources might be incurred, and management’s attention might be diverted, if we are required to defend ourselves against legal claims.

We generally maintain insurance against product liability claims, but our insurance coverage may not be adequate for any potential liability ultimately incurred. In addition, insurance could become unavailable in the future on terms acceptable to us. A successful claim that exceeds our available insurance coverage or a significant product recall could have a material adverse impact on our financial condition and results of operations.

We rely to a large extent on production and sales in developing countries which may become politically or economically unstable and face risks resulting from unanticipated developments in those countries.

We manufacture and sell a large percentage of our products at locations in developing countries such as China, Thailand, the Philippines, Vietnam, Malaysia, Mexico and Indonesia, in order to take advantage of more competitive production and sales costs and develop new markets for our products. We also seek to expand our operations into other developing markets, including India and Brazil, where we have little or no prior experience. These countries and markets are still in the process of developing their economic, social and other infrastructures and are susceptible to various uncertainties. The political, social and economic situations of these countries may not continue to provide an environment in which we can continue to manufacture our products cost-efficiently in proximity to our customers. The governmental authorities of those countries may impose regulations or restrictions that would make it difficult, impractical or impossible, whether economically, legally or otherwise, for us to conduct our business there.

Furthermore, business activities overseas exposes us to the following various risks related to foreign business transactions, and these risks may adversely affect our business, operating results, and financial condition:

- economic slowdown or downturn in the relevant industries in foreign markets,
- international currency fluctuations,
- general strikes or other disruptions in working conditions,
- labor shortage and the labor cost increase, especially in China and Thailand,
- political instability,
- changes in trade restrictions and tariffs,
- the difficulties associated with staffing and managing international operations,
- generally longer receivables collection periods,
- unexpected changes in or imposition of new legislative or regulatory requirements,
- relatively limited protection for intellectual property rights in some countries,
- potentially adverse taxes,
- cultural and trade differences,
- additional cost of products exported overseas, including tariffs, shipping costs, and other duties and impositions, which may make our products less competitive in terms of price, and
- significant time and capital required for expanding overseas businesses before achieving capital return.

Our business structure streamlining measures may fail to achieve their intended goals and may result in significantly increased costs and expenses.

We experienced rapid and significant declines in demand for some of our major products, including components for personal computers, digital cameras and LCD panel manufacturing equipment, in the year ended March 31, 2012, particularly starting in November 2012, due to declining spending and decreasing demand for traditional disk drive products. As a result, sales of these products decreased, and the utilization rate of some of our manufacturing facilities declined to below previous levels. In response, we implemented several measures to streamline our business structure designed to improve our profitability, and incurred restructuring charges during the fiscal year ended March 31, 2013.

We may incur significantly more costs and expenses in connection with any additional business structure streamlining measures than expected, which costs and expenses may exceed the targeted streamlining benefits. Moreover, even if the intended benefits of our business structure streamlining measures are realized, we may not be able to achieve the targeted level of profitability due to other risk factors discussed in this annual report. For example, further declines in demand for our products or cancellations of orders for our products in large volumes may result in inventory valuation losses. If our manufacturing capabilities remain under-utilized and fail to generate sufficient cash flows, impairment losses on relevant assets may also need to be recognized. In addition, if we are unable to improve our profitability as expected and, as a result, the fair value of any of our reporting units declines below the fair value of related assets net of liabilities, we may be required to record impairment losses relating to goodwill in future periods. Restructuring charges are recorded primarily in cost of sales, selling, general and administrative expenses, and other operating expense, and thus adversely affect our operating income and net income, in addition to our financial condition.

Our quarterly operating results do not necessarily indicate a trend of our future operating results.

We have experienced, and expect to continue to experience, fluctuations in sales and operating results from one quarter to the next. As a result, we believe that quarter-to-quarter comparisons of our operating results are not necessarily meaningful, and that such comparisons cannot be relied upon as indicators of future performance. Our operating results may be subject to significant quarterly fluctuations as a result of the various factors, including:

- fluctuations in product demand as a result of the cyclical and seasonal nature of the industries in which our products are sold and used, including the computer industry,
- translation effect of exchange rate fluctuations on the results of our overseas subsidiaries and monetary assets and liabilities denominated in foreign currencies,
- the availability and extent of utilization of our manufacturing capacity,
- changes in our product, customer, or competitor mix, which can occur on short notice,
- cancellation or rescheduling of significant orders, which can occur on short notice;
- deferrals of customer orders for our new products, and
- component and raw material costs and availability, particularly with respect to components obtained from sole or limited sources which can occur on short notice.

Because our production and inventory are planned in advance of anticipated customer demand, if actual demand is significantly smaller than projected, we may suffer losses.

We typically plan our production and inventory levels based on customers' advance orders, commitments or forecasts, as well as our internal assessment and forecasts of customer demand, which are highly unpredictable and can fluctuate substantially, especially if competition becomes more intense or the demand is reduced due to seasonality or other factors. In order to secure sufficient production scale and productivity, we may make capital investments in advance of anticipated customer demand. We plan to make additional capital investments to expand our manufacturing capabilities particularly in emerging economic regions. If our manufacturing capabilities are under-utilized due to lower demand for our products, unavailability of raw materials or components, or for any other reason, such under-utilization could result in increases in utilization costs, impairment losses and inventory valuation losses or otherwise lower our profit margins, and could have a greater material adverse impact on our results of operations and financial condition.

In addition, in anticipation of long lead times to obtain inventory and materials from our suppliers, we may also from time to time order materials in advance of anticipated customer demand. This advance investment and ordering may result in excess inventory levels, resulting in unanticipated inventory write-downs if expected orders fail to materialize. As of March 31, 2013, our inventory was ¥99.8 billion.

In addition, our operating expenses are relatively fixed, and we thus have limited ability to reduce expenses quickly in response to any revenue shortfalls resulting from a decrease in demand. Consequently, our operating results will be harmed if our revenues do not meet our revenue projections.

Our growth has been based in part on acquisitions of, or investments in, other companies, and our future growth could be adversely affected if we make acquisitions or investments that fail to achieve their intended benefits, or if we are unable to find suitable acquisition or investment targets.

We have achieved much of our growth by acquiring and otherwise investing in other companies that have provided us with complementary technologies and product lines. From time to time, we intend to seek and pursue appropriate opportunities for acquiring and investing in other companies and increasing our ownership interests in the existing affiliates and investees. To the extent that we are unable to make successful acquisitions or investments, we may not be able to continue to expand our product range and our growth rates could be adversely affected.

Critical to the success of our acquisitions is the ordered, efficient integration of acquired businesses into our organization, which has in the past required, and may continue to require, significant resources. Our acquisitions may not generate the operational and financial returns we expect. The success of our future acquisitions will depend upon factors such as:

- our ability to manufacture and sell the products of the businesses acquired,
- continued demand for these acquired products by our customers,
- our ability to integrate the acquired businesses' operations, products and personnel,
- our ability to retain key personnel of the acquired businesses,
- our ability to extend our financial and management controls as well as our reporting and compliance systems and procedures to acquired businesses,
- accuracy of financial and legal due diligence, and
- our ability to identify possible liabilities that could negatively affect our business, operations or reputation during the due diligence process.

Our new and additional investments in other companies are subject to other uncertainties that may have a material adverse impact on our business. For example, the fair value of our investments in other companies may be impaired if their business results deteriorate, or as a result of a decline in the fair value of their securities that is other than temporary. Changes in economic policies of local governments, laws and regulations, and accounting rules applicable to companies in which we invest may also have a significant adverse effect on our financial results. In addition, in cases where we have a non-controlling interest in an investee, we typically cannot control the operations and the assets of the investee or make major decisions without the consent of other shareholders, or participants, or at all, or acquiring a controlling interest by increasing our shareholding interest.

Failure to succeed in acquisitions or investments, or an inability to find suitable acquisition or investment targets, could have a material adverse effect on our business, results of operations and financial condition.

Our growth places significant burden on our management and operational and financial resources.

Our future success depends to a large extent on our ability to integrate and manage our group of companies as we seek to expand our business and operations organically or through acquisitions of or investments in businesses in accordance with our growth strategy. However, our growth has placed, and is expected to continue to place, significant burden on our management and operational and financial resources. As we pursue our growth strategy, we may face increasing burden on management and our resources and, as a result, fail to timely and appropriately enhance our group-wide administrative, operational, information technology, and financial and compliance management systems. Such failure may have a material adverse impact on our business, results of operations and financial condition.

We rely on our founder, President and CEO, Mr. Shigenobu Nagamori, the loss of whom could have a material adverse effect on our business.

Our continued success will depend to a significant extent on the efforts and abilities of our founder and current President and CEO, Mr. Shigenobu Nagamori. Mr. Nagamori is actively engaged in our management and determines our strategic direction, especially with regard to acquisition activities. While we are in the process of establishing a management structure designed to reduce our dependence on Mr. Nagamori, his sudden departure or reduced attention to us could have a material adverse effect on our operations, financial condition and operating results.

Any material failure to successfully achieve our corporate objectives or business strategies due to changes in the economic environment or otherwise may have an adverse impact on our reputation and business.

One of our major corporate objectives is to contribute to society, and we endeavor to implement various policies to further this objective, including those intended to provide a stable employment environment and create new jobs. We believe such objectives and policies contribute significantly to building a positive corporate image and brand.

While endeavoring to achieve our corporate objectives, we pursue business strategies that include, among others, seeking growth opportunities through acquisitions of and investments in businesses as well as organic expansion. We may be, however, unable to achieve the profitability or returns expected by management. Changes in the business and economic environments in which we currently operate or aim to operate and other uncertain or unforeseen factors may make it difficult for us to achieve the targets management has set.

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If we are unable to achieve our corporate objectives due to such difficulty, or are compelled by economic or other factors to adopt measures that are inconsistent with our corporate objectives, including our recent decision to implement workforce reductions as part of the measures designed to streamline our business structure, our corporate brand may be damaged, adversely affecting our business and results of operations.

We rely on monthly financial data from operating segments that are not prepared on a U.S. GAAP basis and are not comparable between segments, which potentially reduces the usefulness of this data to us in making management decisions.

We assess our performance and make operating decisions based on financial information received from the 14 operating segments and others that we report in our consolidated financial statements: Nidec Corporation, Nidec Electronics (Thailand) Co., Ltd., Nidec (Zhejiang) Corporation, Nidec (Dalian) Limited, Nidec Singapore Pte. Ltd., Nidec (H.K.) Co., Ltd., Nidec Philippines Corporation, Nidec Sankyo Corporation, Nidec Copal Corporation, Nidec Tosok Corporation, Nidec Copal Electronics Corporation, Nidec Techno Motor Corporation, Nidec Motor Corporation and Nidec Motors & Actuators. This segmental information is prepared in accordance with the accounting principles in each segment's respective country of domicile. For example, Nidec Corporation's operating profit or loss is determined using Japanese GAAP while Nidec Singapore Pte. Ltd. applies Singaporean accounting principles. Therefore, our segment data has not been prepared under U.S. GAAP on a basis that is consistent with the consolidated financial statements or on any other single basis that is consistent between segments.

In addition, year-end closing adjustments and other items are not included in segment totals. These aspects of our segment data could make it more difficult for us to evaluate the relative performance of individual segments and our overall operations in a timely manner, as compared with segment data compiled on a uniform U.S. GAAP basis.

We are subject to various laws and regulations, and our failure to comply may harm our business.

We conduct our business subject to ongoing regulation and associated regulatory compliance risks, including the effects of changes in laws, regulations, policies, voluntary codes of practice, accounting standards and interpretations in Japan and other countries in which we conduct our business. As we expand the range of our products and the geographical scope of our business, we will be exposed to risks that are unique to particular industries, markets or jurisdictions. Our compliance risk management systems and programs may not be fully effective in preventing all violations of laws, regulations and rules.

Our business activities are subject to a wide range of environmental laws and regulations in Japan, Asia, the Americas, Europe and other areas. These laws and regulations include those relating to discharge of chemicals into the air and water, management, treatment and disposal of hazardous substances and wastes, product recycling, prevention of global warming and the obligation to investigate and clean up soil and groundwater contamination. Many of our operations require environmental permits, the terms of which may impose limits on our manufacturing activities and require the incurrence of costs to achieve compliance, and which may be subject to modification, renewal and revocation by the issuing authorities. We may be held responsible for payments or other compensation for noncompliance with or otherwise pursuant to applicable environmental laws, regulations and permits, in which case our reputation as well as our results of operations could be adversely affected. Moreover, if these laws, regulations and permits become more stringent in the future, the amount of capital expenditures and other expenses which might be required to complete remedial actions and to continue to comply with applicable environmental laws, regulations and permits could increase and be significant, which would materially and adversely affect our business, financial condition and results of operations.

Our business activities are also subject to various other governmental regulations, both local and international, including antitrust, anti-bribery, anti-terrorism, intellectual property, consumer protection, taxation, export regulations, tariffs, foreign trade and exchange controls. Because our sales are mostly derived from small precision motor sales and because we have a dominant market share globally for small precision motors, any regulatory development or measure that affects sales or manufacturing of small precision motors in particular could reduce our sales or otherwise negatively affect our business. In addition, as our common stock is listed on the Tokyo Stock Exchange, and American Depositary Shares representing shares of our common stock are listed on the New York Stock Exchange, we must also comply with applicable securities laws and regulations and accounting standards. Compliance with these and other applicable laws, regulations and standards could require significant financial, human and other resources. Moreover, our failure or inability to comply fully with these and other applicable laws, regulations and standards could lead to fines, public reprimands, damage to reputation, enforced suspension of operations or, in extreme cases, withdrawal of authorization to operate, adversely affecting our business and results of operations.

In addition, future developments or changes in laws, regulations, policies, voluntary codes of practice, accounting standards, fiscal or other policies and their effects are unpredictable and beyond our control. Such developments and changes may require additional financial, administrative and human resources.

We may experience difficulties implementing effective internal controls over financial reporting.

As a public company, it is essential for us to have effective internal controls, corporate compliance functions, and accounting systems to manage our assets and operations. Moreover, under the U.S. Sarbanes-Oxley Act of 2002, which applies by reason of our status as a company subject to the reporting obligations under the U.S. Securities Exchange Act of 1934, we are required to establish internal control over our financial reporting, and our management is required to assess the effectiveness of our internal control over financial reporting and disclose whether such internal control is effective. Our independent registered public accounting firm must also conduct an audit on the effectiveness of our internal control over financial reporting. We are also subject to regulations on internal control over financial reporting under Japanese law.

Designing and implementing an effective system of internal controls capable of monitoring and managing our business and operations requires significant management, human and other resources. Once we identify any significant deficiencies or material weaknesses in our internal control systems, we may require additional resources and incur additional costs for remediating such deficiencies or weaknesses.

Furthermore, if management determines that our internal control over financial reporting is not effective for any period, we may be unable to timely file reports required under the U.S. Securities and Exchange Act of 1934, and our market perception could be negatively affected. Depending on the severity of, and causes and other factors relating to, a material weakness in internal control over financial reporting, we could be subject to liabilities or sanctions, including enforcement action by the SEC for violations of the U.S. securities laws and by the Japanese Financial Services Agency for violations of the Financial Instruments and Exchange Law. In addition, we could be restricted in our ability to access U.S., Japan and other markets for capital raising.

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We could be harmed by litigation involving patents and other intellectual property rights.

Our business is dependent on our ability to protect our proprietary rights through patent protection on certain aspects of our technology, and on trade secret, copyright and trademark laws as well as contractual provisions. We face the following risks:

- we could incur substantial costs in defending against claims of infringement of the intellectual property of others and such claims could result in damage awards against us, in orders to pay for the use of previously unrecognized third-party intellectual property or in injunctions preventing us from continuing aspects of our business, which could in turn have a material adverse effect on our business, financial condition and results of operations;
- our protective measures may not be adequate to protect our proprietary rights;
- other parties, including competitors with substantially greater resources, may independently develop or otherwise acquire equivalent or superior technology, and we may be required to pay royalties to license the intellectual property of those parties;
- patents may not be issued pursuant to our current or future patent applications, and patents issued pursuant to such applications, or any patents we own or have licenses to use, may be invalidated, circumvented or challenged;
- the rights granted under any such patents may not provide competitive advantages to us or adequately safeguard and maintain our technology;
- we could incur substantial costs in seeking enforcement of our patents against infringement or the unauthorized use of our trade secrets, proprietary know how or other intellectual property by others; and
- the laws of foreign countries in which our products are manufactured and sold may not protect our products and intellectual property rights to the same extent as the laws of Japan and the United States, and such laws may not be enforced in an effective manner.

For information relating to our intellectual properties disputes, see “Item 4.B. Information on the Company—Business Overview—Legal Proceedings.”

Leaks of confidential information may adversely affect our business.

In the normal course of business, we possess personal and other confidential information on our customers, other companies and other third parties with whom we do business as well as our own confidential information and personal information of our employees. Although we have security measures in place to protect such information, we may be subject to liability or regulatory action if any of such information is leaked due to human or technical error, unauthorized access or other illegal conduct, or otherwise. Failure to protect confidential information could also lead to a loss of our competitive advantage and customer and market confidence in us, adversely affecting our business, financial condition and results of operations.

In addition, there is a risk that our confidential information may be leaked due to human or technical error or illegal conduct by a third party or other causes that are beyond our control. In such cases, including where our competitive advantage is lost because of the leak, our business, financial condition or results of operations may be adversely affected.

For our business to continue effectively, we will need to attract and retain qualified personnel.

Our business depends on the continued employment of our senior management, engineers and other technical personnel, many of whom would be extremely difficult to replace. To maintain our current market position and support future growth, we will need to hire, train, integrate and retain significant numbers of additional highly skilled managerial, engineering, manufacturing, sales, marketing, support and administrative personnel. Competition worldwide for such personnel is extremely intense, and we and our affiliates may be unable to attract and retain such additional personnel.

Losses relating to our pension plans and a decline in returns on our plan assets may negatively affect our results of operations and financial condition.

We have defined benefit pension plans covering employees who meet eligibility requirements. We may incur losses if the fair value of our pension plans' assets declines, if the rate of return on our pension assets declines, or if there is a change in the actuarial assumptions on which the calculations of the projected benefit obligations are based. We may also experience unrecognized service costs in the future due to amendments to existing pension plans. Changes in the interest rate environment and other factors may also adversely affect the amount of unfunded pension obligations and the resulting annual amortization expense. In addition, the assumptions used in the computation of future pension expenses may not remain constant.

If our goodwill and long-lived assets become impaired, we may be required to record impairment charges, which would adversely affect our financial results.

We have significant goodwill and long-lived assets, including plants, property and equipment. As of March 31, 2013, we had ¥133 billion of goodwill and ¥278 billion of plants, property and equipment. In connection with any acquisition we make in the future, we may record additional goodwill depending on the terms of the acquisition. In accordance with U.S. GAAP, we review goodwill for impairment annually and goodwill and long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is tested by initially estimating fair value and then comparing it against the carrying amount. If the carrying amount of a reporting unit exceeds its estimated fair value, we are required to record an impairment loss. In addition, if long-lived assets do not generate sufficient cash flows, impairment losses will also have to be recognized. Any significant amount of such impairment losses will adversely affect our results of operations and financial condition.

Our results of operations will be negatively affected if we are required to reduce our deferred tax assets.

As part of the process of preparing our consolidated financial statements in accordance with U.S. GAAP, we must assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. In the event of a deterioration in market conditions or results of operations, in which we determine that there is additional uncertainty regarding realization of all or part of our net deferred tax assets, an adjustment to our deferred tax assets would decrease our income during the period in which such determination is made.

Because our sales to overseas customers are denominated predominantly in U.S. dollars, we are exposed to exchange rate risks that could harm our results of operations and shareholders' equity.

Sales to customers outside Japan accounted for 74.4%, 74.1% and 77.8% of our consolidated net sales during the fiscal years ended March 31, 2011, 2012 and 2013, respectively. A significant portion of our overseas sales is denominated in currencies other than the Japanese yen, primarily the U.S. dollar, Euro, Renminbi and Thai Baht. As a result, the appreciation of the Japanese yen and other currencies against the U.S. dollar and Euro will generally have a negative effect on our sales, operating income, and net income. We may experience volatility in our shareholders' equity as a result of foreign currency exchange rate fluctuations when the results of operations of subsidiaries operating in currencies other than the yen are consolidated into our financial statements, which are reported in Japanese yen.

We also experience foreign exchange risk to the extent that our sales and expenses or those of our subsidiaries are denominated in different currencies. In order to mitigate against this risk, in recent years we have been attempting to offset a portion of our foreign currency revenue by matching the currency of revenue with the currency of expense. For example, if revenue for a particular product is in U.S. dollars, we attempt to purchase the supplies and resources used to produce that product in U.S. dollars. Nevertheless, we remain exposed to the effects of foreign exchange fluctuations.

Interest rate fluctuations may adversely affect our financial condition.

We have long-term receivables and debt, with fixed and variable rates, and we enter into interest rate swaps and other contracts in order to stabilize the fair values and cash flows of those receivables and debts. We enter into interest rate swaps and other contracts to reduce our market risk exposure from changes in interest rates. To the extent that their effects are not hedged, we are exposed to interest rate fluctuation risks which may affect our operational costs, interest expenses, interest income and the value of financial assets and liabilities.

An unexpected drastic decline in the global economies may result in reduced demand for our products.

Demand for our products may be adversely affected by unexpected economic trends in the countries or regions in which our products are sold. Economic downturns and declines in purchasing activities in markets worldwide may result in a decline in demand for our products. In particular, our products are often used in end-products that are subject to discretionary spending, such as personal computers, consumer electronic goods and automobiles, and thus, a downturn in the economy could affect our sales. For example, our operating results for the fiscal year ended March 31, 2013 was adversely affected by the deterioration in the global economic environment due to the credit and financial crises in Europe as well as the weakened consumer spending. Our operating results and financial condition may be further adversely affected due to negative economic trends in future periods.

Our ability to collect on our accounts receivable may be adversely affected by our customers' worsening financial conditions.

As of March 31, 2013, we had ¥159 billion of trade notes and accounts receivable, net of allowance for doubtful accounts. While we are taking measures to mitigate and manage credit risks with respect to our customers and business partners, if changes in the economic conditions of our major markets or the business environment surrounding our customers lead to unexpected levels of bankruptcies or defaults or otherwise result in our customers being unable to pay for our products on schedule or at all, our operating results and financial condition may be negatively affected. Changes in the business environment adversely affecting the liquidity situation of our two largest customers, which represented 13.6% and 9.2% of our gross accounts receivable at March 31, 2012, and 8.0% and 5.1% of our gross accounts receivable at March 31, 2013, respectively, could have a particularly significant negative impact on our results of operations and financial condition.

Decreases in the value of Japanese or foreign stocks may adversely affect our financial results.

We hold Japanese and foreign stocks as part of our investment securities. The value of these stocks are inherently volatile and may decline substantially due to economic conditions or other factors, potentially resulting in our recording an impairment loss on such securities. Decreases in the value of Japanese or foreign stocks may also reduce stockholders’ equity on our balance sheet since, in accordance with U.S. GAAP, we include unrealized holding losses on available-for-sale securities, if any, in our accumulated other comprehensive income or loss, while other-than-temporary declines in market value, are charged to income for the period when the loss occurs.

If our access to liquidity and capital is restricted, our business could be harmed.

We rely to a large extent on debt and equity financing to finance our operations, capital expenditures and acquisitions of other companies. If, due to changes in financial market conditions or other factors, financial institutions reduce, terminate or otherwise modify the amounts or terms of their lending or credit lines to us, and if we are unable to find alternative financing sources on equally or more favorable terms, our business may be materially adversely affected. In addition, if there is a significant downgrade of our credit ratings by one or more credit rating agencies as a result of any deterioration of our financial condition or if investor demand significantly decreases due to economic downturns or otherwise, we may not be able to access funds when we need them on acceptable terms, our access to capital markets may become more restricted, or the cost of financing our operations through indebtedness may significantly increase. This could adversely affect our results of operations and financial condition.

Natural disasters, public health issues, armed hostilities, terrorism and other causes over which we have little or no control could harm our business.

Natural disasters, including earthquakes and floods, fires, the spread of infectious diseases and other public health issues, armed hostilities, terrorism and other incidents, whether in Japan or any other country in which we operate, could cause damage or disruption to us, our suppliers or customers, or could create political or economic instability, any of which could harm our business. For example, natural disasters could adversely affect our operations by damaging industrial and other infrastructures, causing power outages, rendering our employees unable to work, reducing customer demand or disrupting our suppliers’ operations. Our network and information systems are important for normal operations, but such systems are vulnerable to shutdowns caused by unforeseen events such as power outages or natural disasters or terrorism, hardware or software defects, or computer viruses and computer hacking. The earthquake in northern Japan in March 2011 and subsequent events have disrupted the supply chains and infrastructures for Japan’s major manufacturing industries, including the computer and automobile industries. In addition, the flooding in Thailand in October 2011 severely disrupted the supply chains of IT products, including computers. Any similar events, over which we have little or no control, could cause a decrease in demand for our products or services, make it difficult or impossible for us to deliver products, for our suppliers to deliver components or for our customers to manufacture products, require large expenditures to repair or replace our facilities, or create delays and inefficiencies in our supply chain.

We maintain third party insurance coverage for various types of property, casualty and other risks. The types and amounts of insurance that we obtain vary from time to time and from location to location, depending on its availability and cost and our decisions as to risk retention. Our insurance policies are subject to deductibles, policy limits and exclusions that result in our retention of a level of risk on a self-insured basis. While we believe our insurance coverage is comparable to the coverage maintained by similar companies in our industry, losses not covered by insurance could be significant, adversely affecting our financial condition and results of operations.

Large shareholders may sell their shares of our common stock at any time, and such sale may cause our stock price to decline, even if our business is doing well.

As of March 31, 2013, there were 134,681,558 shares of our outstanding common stock (excluding treasury stock), of which 20,295,180 shares, or 15.1% of the outstanding shares, are beneficially owned by our President and CEO, Mr. Shigenobu Nagamori. These shares and, generally, the shares owned by other shareholders, can be sold on the Tokyo Stock Exchange and otherwise in Japan at any time. Additional sales of a substantial amount of our common stock in the public market by a large shareholder, or the perception that such sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our securities. Also, in the future, we may issue securities to raise cash for additional capital expenditures, working capital, research and development or acquisitions. We may also pay for interests in additional subsidiary or affiliated companies by using cash, common stock or both. We may also issue securities convertible into our common stock. Any of these events may dilute your ownership interest in us and have an adverse impact on the price of our common stock.

Japan’s unit share system imposes restrictions in holdings of our common stock that do not constitute whole units.

Our Articles of Incorporation provide that 100 shares of our stock constitute one “unit.” The Company Law of Japan imposes significant restrictions and limitations on holdings of shares that constitute less than a whole unit. Holders of shares constituting less than a unit do not have the right to vote. A shareholder who owns shares representing less than one unit will not be able to exercise any rights relating to voting rights, such as the right to participate in a demand for the resignation of a director, the right to participate in a demand for the convocation of a general meeting of shareholders and the right to join with other shareholders to propose an agenda item to be addressed at a general meeting of shareholders. Under the unit share system, holders of shares constituting less than a unit have the right to require us to purchase their shares. However, holders of ADSs that represent other than multiples of whole units cannot withdraw the underlying shares representing less than one unit and, therefore, they will be unable to exercise the right to require us to purchase the underlying shares. As a result, holders of ADSs representing shares in lots of less than one unit may not have access to the Japanese markets to sell their shares through the withdrawal mechanism.

Rights of shareholders under Japanese law may be more limited than under the laws of other jurisdictions.

Our Articles of Incorporation, Regulations of the Board of Directors, Share Trading Regulations and the other related regulations, as well as the Company Law govern our corporate affairs. Legal principles relating to such matters as the validity of corporate procedures, directors’ and officers’ fiduciary duties and shareholders’ rights may be different from those that would apply if we were a non-Japanese company. Shareholders’ rights under Japanese law may not be as extensive as shareholders’ rights under the laws of other countries or jurisdictions within the United States. You may have more difficulty in asserting your rights as a shareholder than you would as a shareholder of a corporation organized in another jurisdiction. In addition, Japanese courts may not be willing to enforce liabilities against us in actions brought in Japan which are based upon the securities laws of the United States or any U.S. state.

A holder of our ADSs will have fewer rights than a shareholder has and will have to act through the depositary to exercise those rights.

The rights of the shareholders under Japanese law to take actions, including voting their shares, receiving dividends and distributions, bringing derivative actions, examining our accounting books and records and exercising appraisal rights are available only to holders of record. Because the depositary, through its custodian agent, is the record holder of the shares underlying the ADSs, only the depositary can exercise those rights in connection with the deposited shares. The depositary will make efforts to vote the shares underlying ADSs as instructed by the ADS holder and will pay to ADS holders the dividends and distributions collected from us. However, as an ADS holder, you will not be able to bring a derivative action, examine our accounting books and records or exercise appraisal rights in your capacity as ADS holder.

Because of daily price range limitations under Japanese stock exchange rules, you may not be able to sell your shares of our common stock at a particular price on any particular trading day, or at all.

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchanges set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

Foreign exchange fluctuations may affect the dollar value of our ADSs and dividends payable to holders of our ADSs.

Market prices for our ADSs may fall if the value of the yen declines against the U.S. dollar. In addition, the U.S. dollar amount of cash dividends and other cash payments made to holders of our ADSs would be reduced if the value of the yen declines against the U.S. dollar.

It may not be possible for investors to effect service of process within the United States upon us or our directors or Audit and Supervisory Board members or to enforce against us or these persons judgments obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States.

We are a limited liability, joint-stock corporation incorporated under the laws of Japan. Most of our directors and Audit and Supervisory Board members reside in Japan. A substantial portion of our assets and all or substantially all of the assets of these persons are located in Japan and elsewhere outside the United States. It may not be possible, therefore, for investors to effect service of process within the United States upon us or these persons or to enforce against us or these persons judgment obtained in United States courts predicated upon the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Japan, in original actions for enforcement of judgments of United States courts, of liabilities predicated solely upon the federal securities laws of the United States.