
Survey of Japanese Companies in Southern California 2014



Forward

Since 1983, the Japan Business Association of Southern California (JBA) and the Japan External Trade Organization (JETRO) Los Angeles office have conducted surveys to obtain an accurate assessment of Japanese companies in Southern California. The results of these surveys have been utilized to foster better understanding of Japanese companies in the region and facilitate their business activities.

We have compiled the “2014 Survey of Japanese Companies in Southern California,” the 11th of its type, and give thanks to the cooperation of all parties participated. The results of this survey show the great contributions made by Japanese companies to the regional economy in terms of investment and employment. At the same time, it also reveals how much improvement has been made in the revenues of Japanese companies in the region as a whole, as well as their challenges to facilitate their business activities. We will utilize the survey results to gain a better understanding of Japanese companies doing business in Southern California, as well as to improve California’s overall business environment.

The “2014 Survey of Japanese Companies in Southern California” may also be viewed on the websites of JBA (<http://www.jba.org>) and JETRO (<http://www.jetro.org/la>).

Finally, we would like to extend our sincere gratitude to the JBA members who cooperated in this survey and the Japanese companies that submitted the completed questionnaire to JETRO.

August 14, 2014

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JBA President

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Survey Objective and Methodology

1. Survey Objectives

The survey's purpose, now on its 11th installment, is to gain a better understanding of the business conditions and management environment in Southern California-based Japanese companies.

(Note) The past surveys were conducted in 1983, 1987, 1997, 2000, 2002, 2004, 2006, 2008, 2010 and 2012.

2. Survey Targets

Japanese companies located in Southern California (Note). A Japanese company is defined as a company meeting one of the conditions in [1] to [3] below:

- [1] A company with 10% or more of its capital owned (directly or indirectly) by a company headquartered in Japan
- [2] A branch or representative office of a company whose headquarters is located in Japan
- [3] A company established and operated by individuals of Japanese origin

(Note) In this survey, Southern California is the area consisting of the following 10 counties: Los Angeles, Orange, Ventura, Santa Barbara, Kern, San Luis Obispo, San Bernardino, Riverside, San Diego and Imperial.

3. Survey Methodology

In general, more than 1,000 Japanese companies are recognized in Southern California. The 673 of these Japanese companies, identified by JBA /JETRO, were requested to reply to this survey, 626 companies responded as will participate the survey, 435 companies (response rate: 69.5%) had responded..

4. Survey Period

February 2014

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I. Overview of Japanese Companies in Southern California

1. Geographic distribution

There are reportedly more than 1,000 Japanese companies in Southern California, of which 673 companies are on record with JBA/JETRO, proving that the region is one of the leading global hubs for Japanese companies.

Japanese companies account for a large¹ portion of the total investment, not through acquisitions or capital participation, but by incorporating a business in the U. S.

On geographic distribution by county, approximately 70 % of all companies are based in Los Angeles County, followed by Orange County and San Diego County. To sum up, most Japanese companies are located in these three counties.

By city, 192 companies are located in the city of Torrance, which is a home to many well-established Japanese companies. The city of Los Angeles has the second highest number with 96 companies, followed by 54 in Irvine and 36 in Gardena.

[Table 1] Geographic Distribution Statistics

		Number of Companies	
			Ratio
Los Angeles		474	70.4%
	Torrance	192	28.5%
	Los Angeles	96	14.3%
	Gardena	36	5.3%
	Long Beach	22	3.3%
	Other	128	19.0%
Orange		136	20.2%
	Irvine	54	8.0%
	Cypress	20	3.0%
	Other	62	9.2%
San Diego		48	7.1%
	San Diego	29	4.3%
	Other	19	2.8%
San Bernardino		7	1.0%
Riverside		6	0.9%
Others		2	0.3%
Total of Southern California		673	100%

* In the previous survey, 70.3% were located in Los Angeles County, 21.0% in Orange County, and 6.6% in San Diego County.

¹ This survey shows that 88.9% of Japanese companies responding to the survey entered Southern California by incorporating a business.

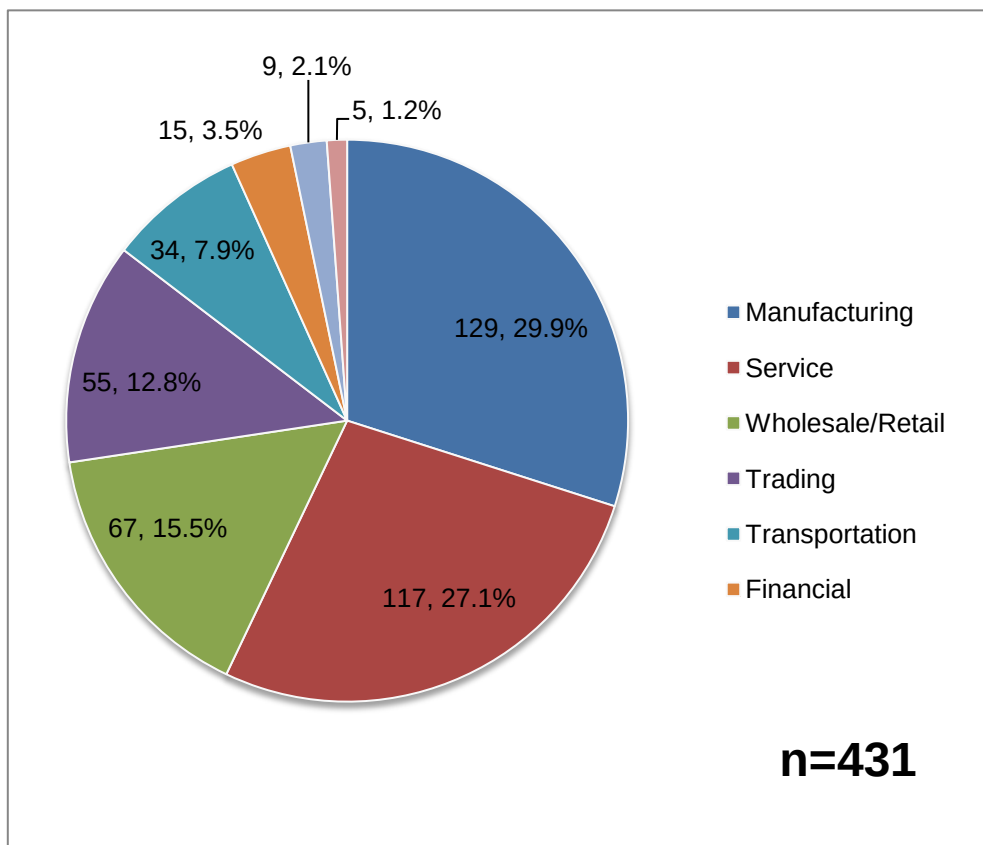
2. Industrial distribution

On Industrial distribution, “Manufacturing” (29.9%) is the leading segment and combined with “Service” (27.1%) will make up more than 50% of the total. “Service” includes information systems, film/publishing, leisure/tourism and professional services (law firms, accounting firms and consulting).

“Wholesale/Retail” (15.5%), “Trading” (12.8%) and “Transportation” (7.9%) follow, accounting for approximately 30 % of the total.

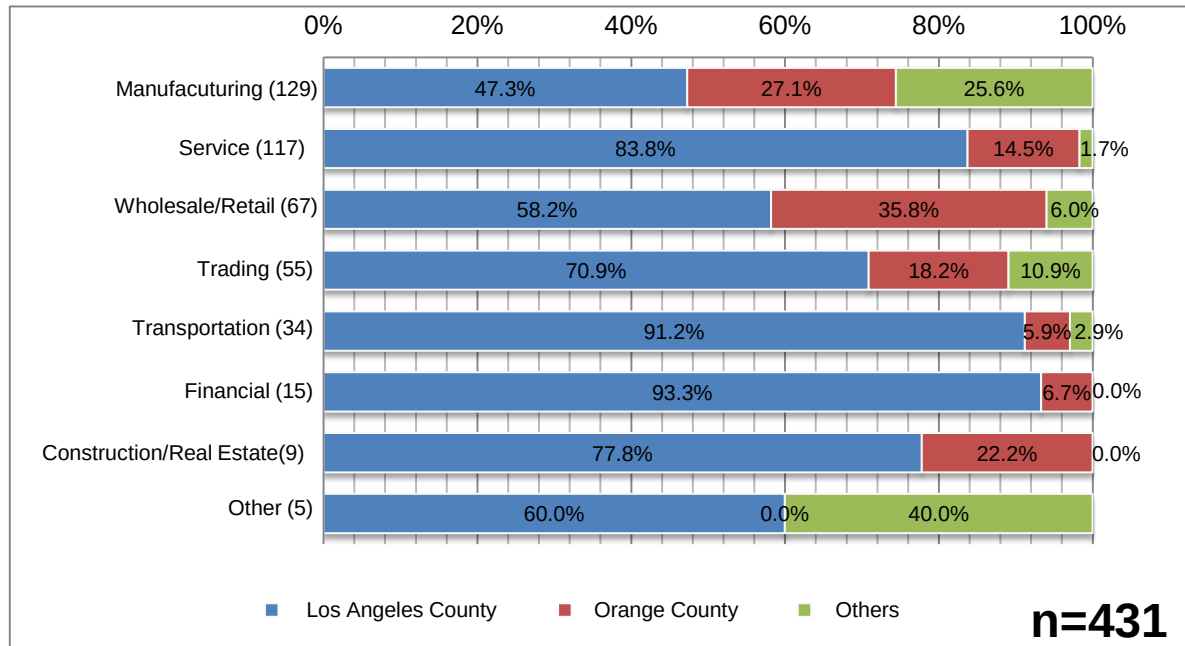
Southern California serves as a major logistics hub in the U.S., (Port of Los Angeles, Port of Long Beach and Los Angeles International Airport) and is also a major trade gateway to Asia. Both are significant factors leading to the concentration of these industries in Southern California.

[Graph 1] Industrial Distribution Statistics (n=431)



On geographic location by industry, the center of Southern California, Los Angeles County is home to many local Japanese companies. Orange County is home to about 30% in the “Manufacturing” and “Wholesale/Retail” sectors.

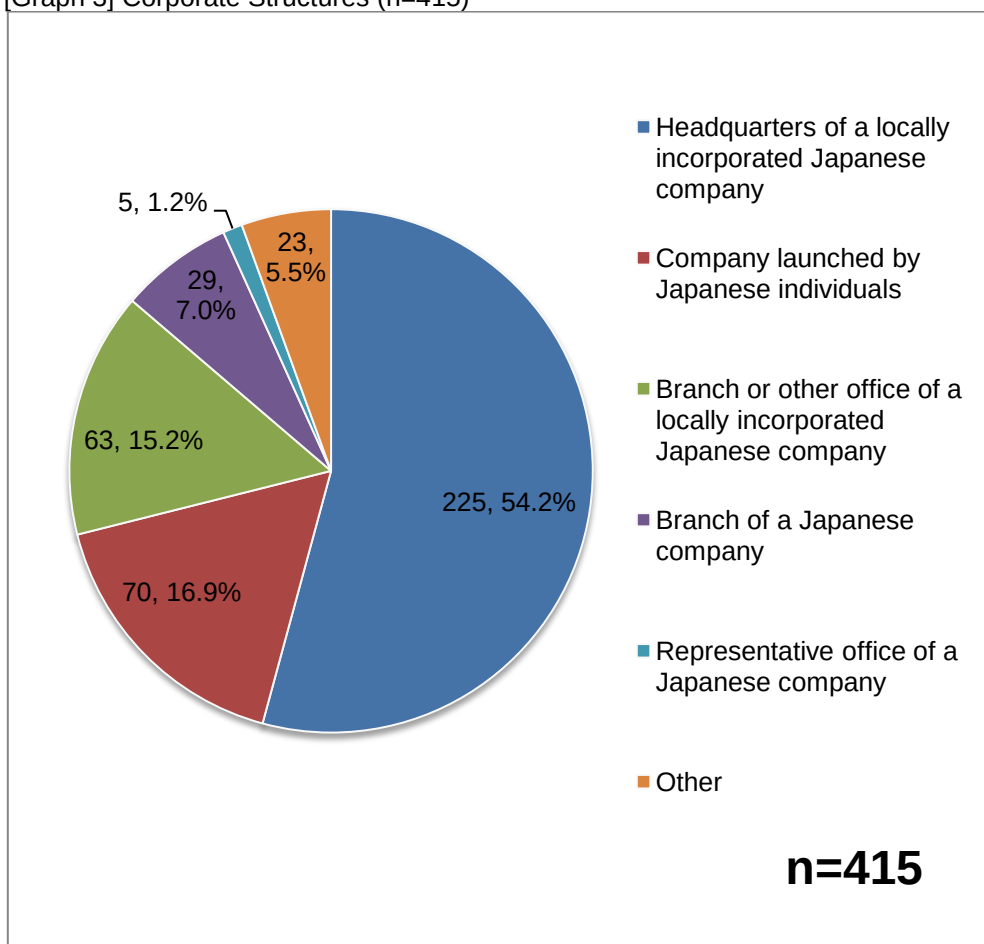
[Graph 2] Industrial Distribution Statistics by Area (n=431)



3. Corporate structure

On corporate structure, Southern California plays a vital geographic role for Japanese companies entering the United States, 50% of the companies responding to the survey are “headquarters of locally incorporated Japanese companies.” Furthermore, combine with the “branch or other office of a locally incorporated Japanese company”, it accounts for nearly 70% of the total.

[Graph 3] Corporate Structures (n=415)



A “company launched by Japanese individuals” does not include headquarters, branch or other office of a locally incorporated Japanese company.

4. Timing of incorporation

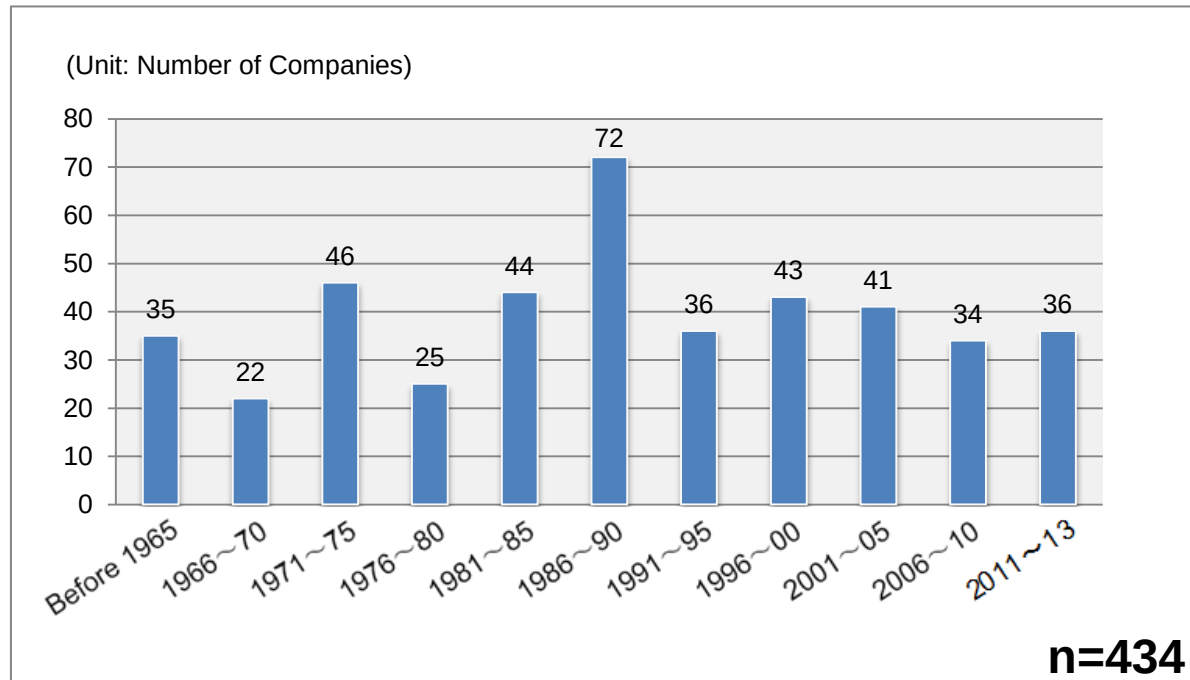
Viewing the background of market expansion by Japanese companies from a historical perspective, Japanese companies expanded their operations to the U.S. market in the 1950s, for the purpose of conducting market research and entering business deals. In the 1960s to 1970s Japanese companies entered the U.S. to promote exports and market expansion.

After 1970, U.S.-Japan textile negotiations signaled the beginning of trade-friction issues related to sheet glass, televisions, iron and steel, semiconductors, etc., thus encouraging the subsequent U.S. expansion of Japanese companies for local production. After 1980, such local production was further promoted, due in part to the need to correct the trade imbalance between Japan and the United States. Concurrently, there were an increasing number of companies entering the U.S. market in search of investment opportunities in order to utilize excess funds generated on the back of the rising yen and bubble economy, which peaked from 1986 to 1990.

After 1991, the U.S. expansion of Japanese companies slowed down in the aftermath of the collapse of the bubble economy, with some even withdrawing from the U.S. market. However, after 1996, a renewed drive was seen among information service fields, including those in film and publishing, to enter the U.S. markets.

Since 2006, the U.S. expansion of Japanese companies has become stagnant due to the slumping U.S. economy triggered by the collapse of Lehman Brothers and other associated factors.

[Graph 4] Year of Establishment (n=434)

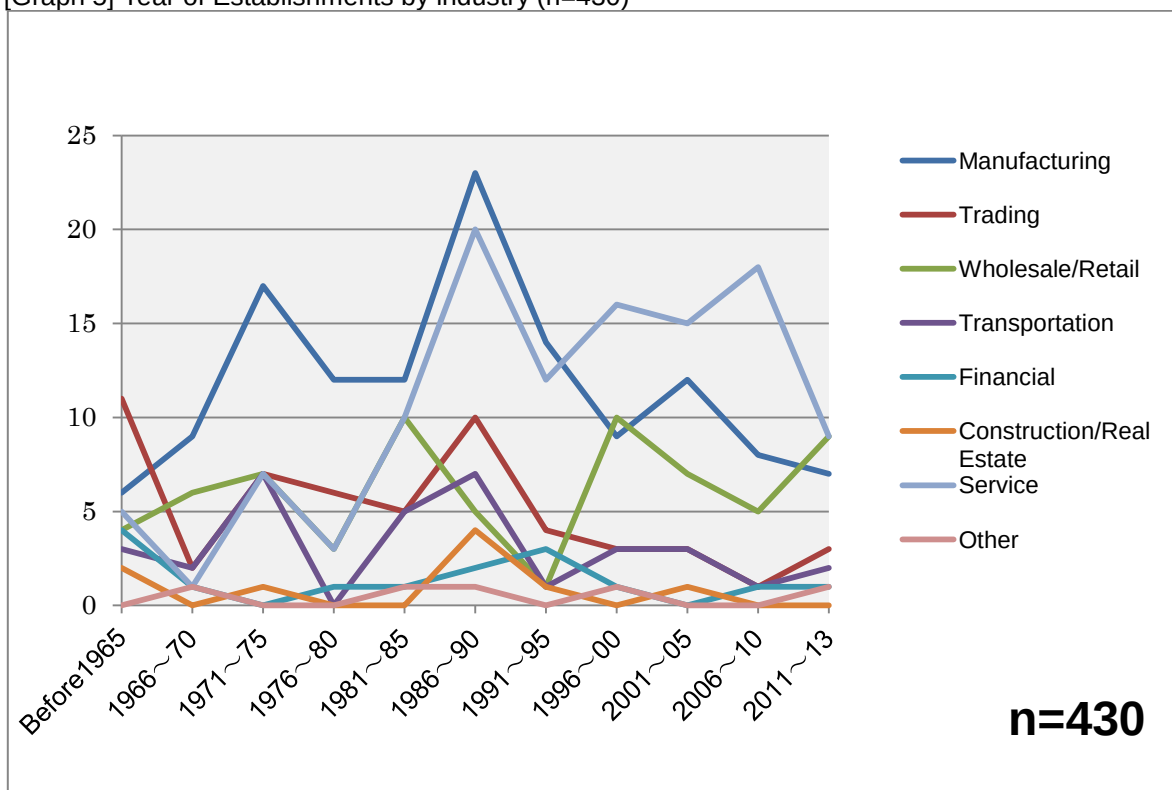


The market expansion of Japanese company by industry: early Japanese entrants to the U.S. included “Wholesalers, Retailers” and “Trading” companies that required relatively small amounts of capital investment.

“Manufacturing” also entered the U.S. in earnest against the backdrop of the rising yen and increasing trade friction, and transportation companies that supported the logistics operations of those companies also set up operations in the U.S. in the 1980s.

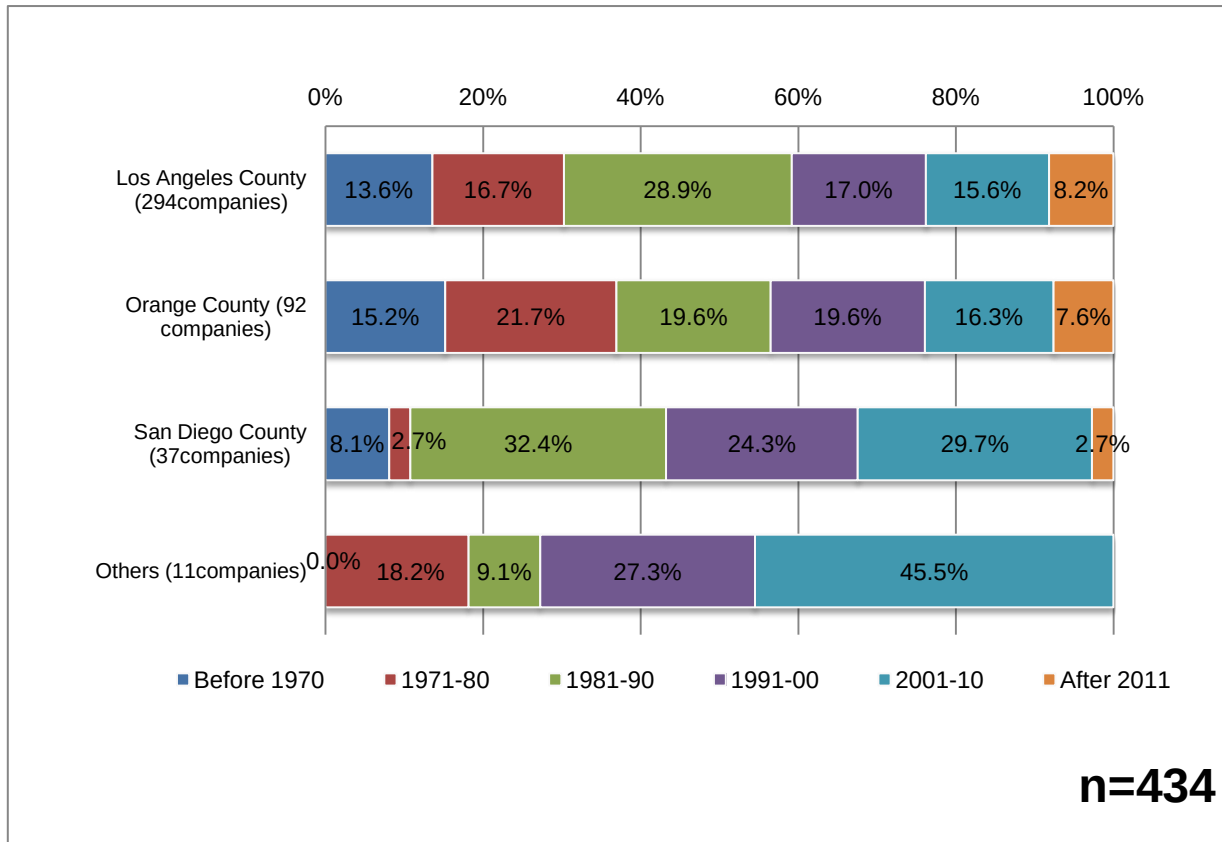
After reaching its peak in 1986 to 1990, the U.S. expansion of “Manufacturing” companies has started to recede, while “Service” companies have continued at a strong pace.

[Graph 5] Year of Establishments by industry (n=430)



By region, the result shows that more than 30% of respondent companies in Los Angeles and Orange Counties were established prior to 1980, while nearly 90% of those in San Diego County were established in 1981 and thereafter.

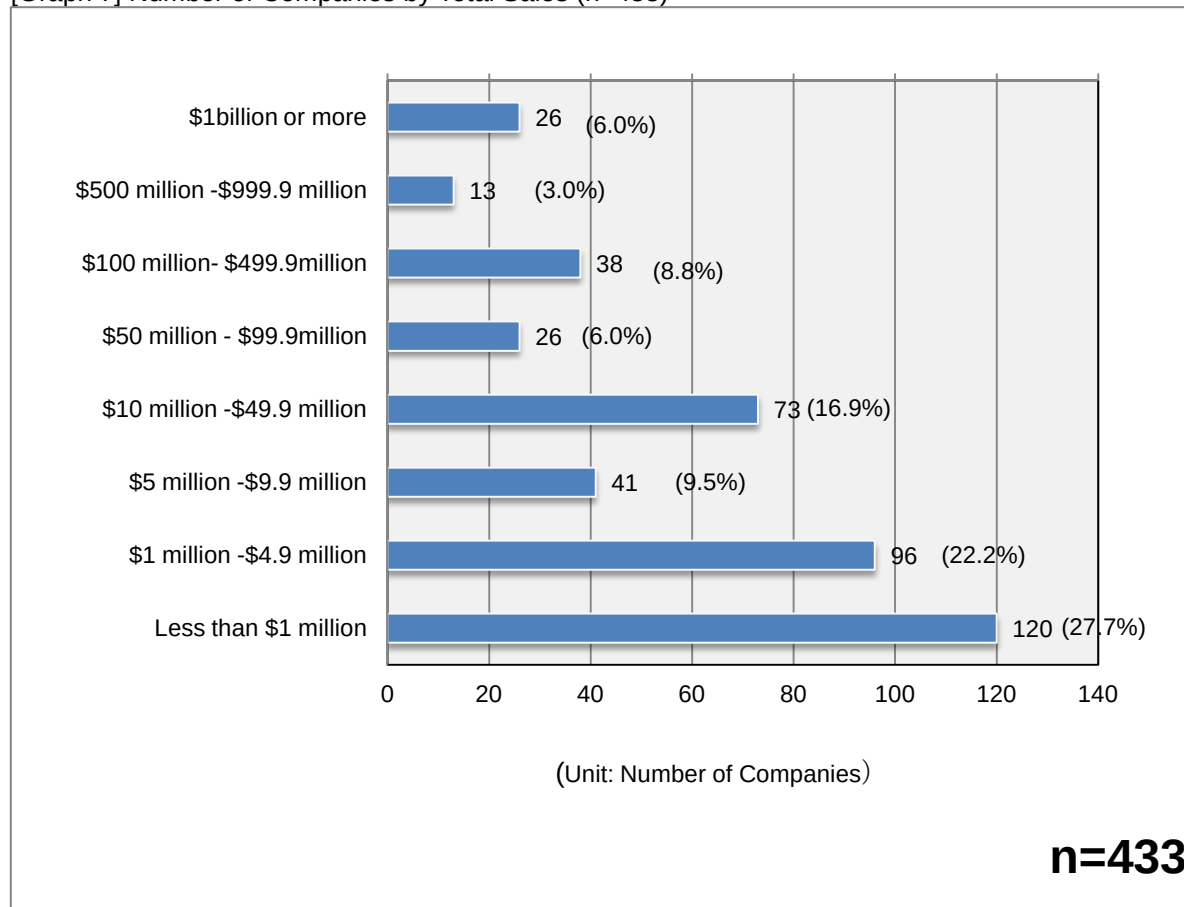
[Graph 6] Year of Establishment by County (n=434)



5. Total sales

59.4% of all respondent companies had sales of less than \$10 million per year, while companies with sales of \$100 million per year or more accounted for 17.8% of all companies.

[Graph 7] Number of Companies by Total Sales (n=433)



II. Contributions to Regional Communities

1. Job creation

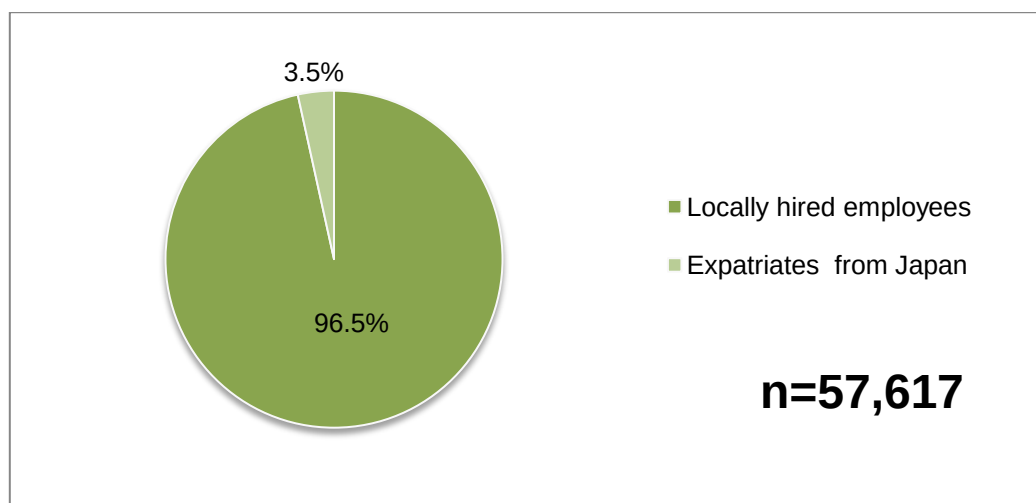
The total number of employees in Southern California reached 57,617 with 414 companies' responding. Of these, locally hired employees (55,628) comprised 96.5% of the total, while the remaining 1,989 are expatriates from Japan.

Also, the average number of employees per Japanese company is 139.2. When this is multiplied by 673--the number of Japanese companies in Southern California on JBA and JETRO's record--it is estimated that total 93,682 people (including 3,231 expatriates from Japan and 90,451 local hires) are employed by Japanese companies in the area. The number indicates that Japanese companies are contributing to the local economy through job creation.

[Table 2] Number of Employees Hired by Japanese Companies (n=414)

	Total (people)	Expatriates from Japan	Locally hired employees
Number of employees (n= 414)	57,617	1,989	55,628
Average number of employees per company	139.2	4.8	134.4
Total employments in Southern California (estimate)	93,682	3,231	90,451

[Graph 8] Percentage of Locally Hired Employees



By industry breakdown, “Manufacturing” accounted for the highest percentage of 47.0% with 27,091 employees. “Wholesale/Retail” was second 27.7% with 15,950 employees, followed by “Service” with 6,677 employees (11.6%).

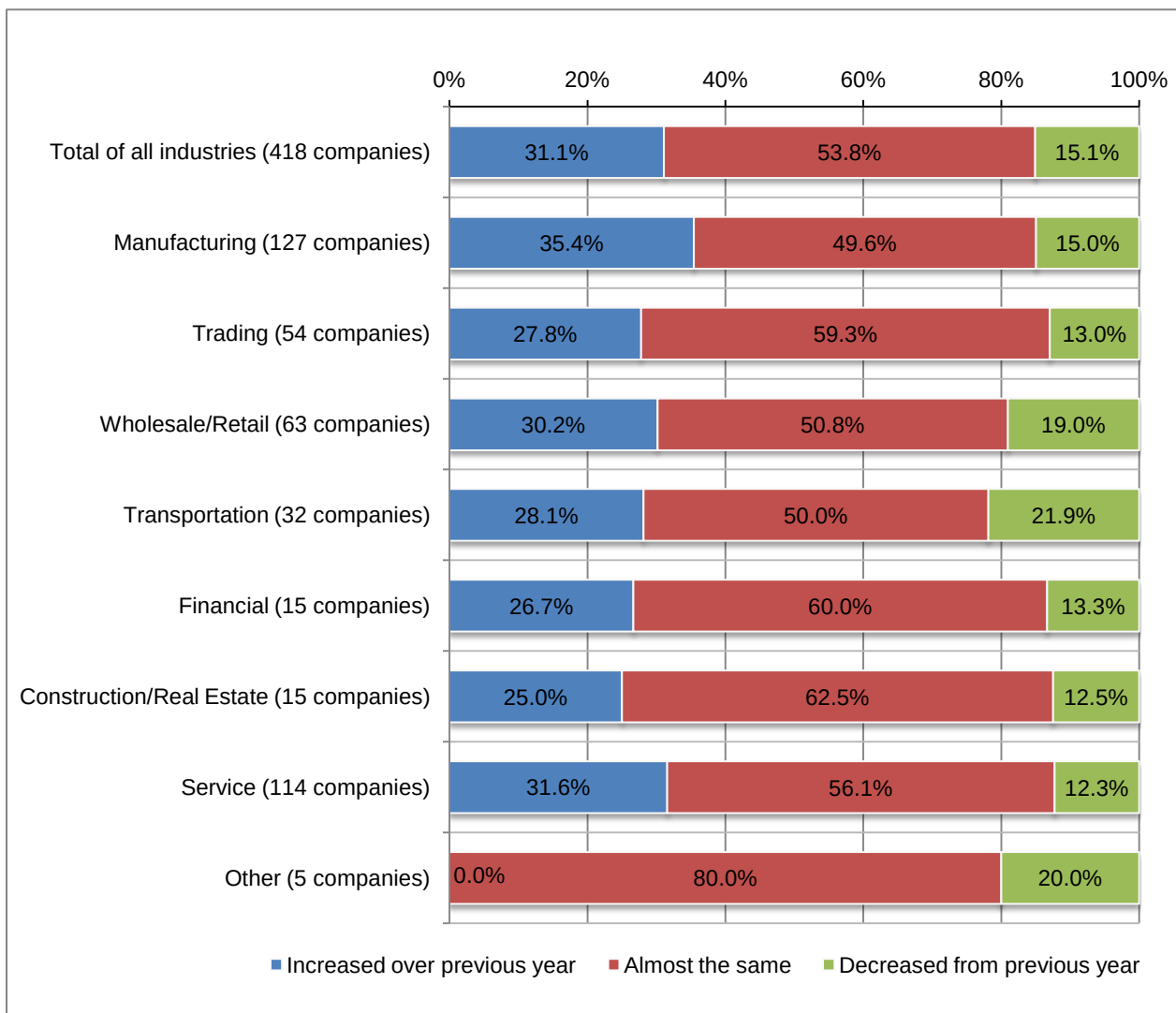
[Table 3] Employment Size by Industry (n=414)

		Number of employees	
			Ratio
Manufacturing	(125 companies)	27,091	47.0%
Wholesale/Retail	(66 companies)	15,950	27.7%
Service	(111 companies)	6,677	11.6%
Trading	(53 companies)	3,905	6.8%
Transportation	(32 companies)	2,017	3.5%
Financial	(15 companies)	1,319	2.3%
Construction/Real Estate	(7 companies)	525	0.9%
Other	(5 companies)	133	0.2%
Total		57,617	100%

The changes in number of employees compared to previous year, show 31.1% of all companies in all industries “Increased “, while 15.1% experienced a “Decreased” . 53.8% of all industries responded “Almost the same”.

By industry, “Increased over previous year” rose in “Manufacturing” and “Service” sectors.

[Graph 9] Changes in Number of Employees from previous year by Industry



2. Salaries and wages

A total of \$2.63 billion in salaries and wages (including benefits) were paid by the 284 responding Japanese companies in Southern California.

The average salary shows \$84,400 per year per employee.

When this figure is multiplied by 93,682, an estimate total employment number of Japanese companies (673 companies) on record with JBA and JETRO, the “total amount of salaries and wages paid” are estimated as \$7.91 billion.

[Table 4] Total Amount of Salaries and Wages Paid by Japanese Companies

(Unit: In thousand dollars)

Total salaries and wages paid (n=284)	2,631,627
Average salary paid (per employee) (*)	84.4
Total amount of salaries and wages paid in Southern California (estimate)	7,906,761

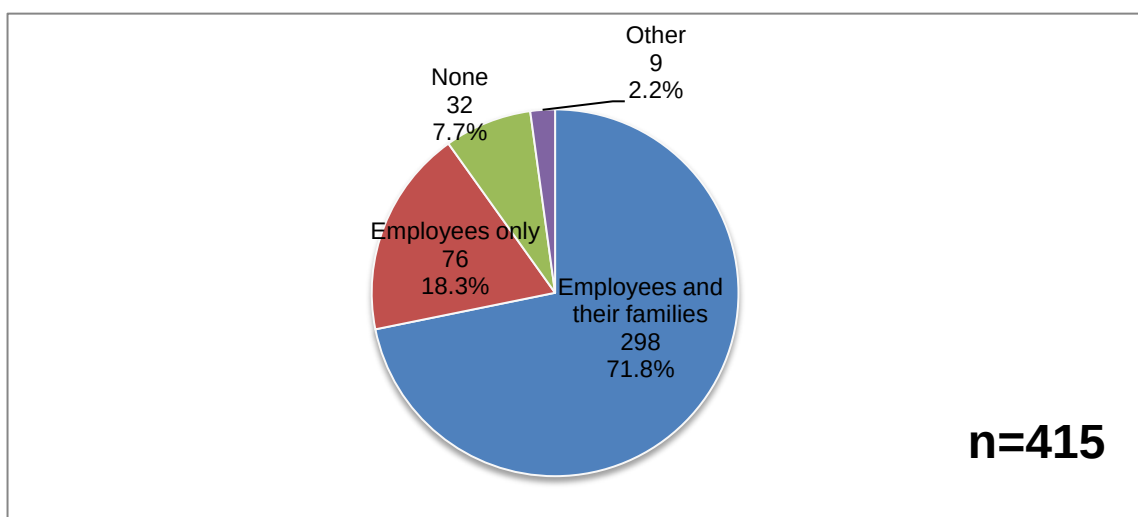
(*) Total amount of salaries and wages paid / 31,168 (number of employees with the 284 companies that responded)

3. Healthcare insurance coverage

Approximately 70% of the Japanese companies provide healthcare insurance for “Employees and their families.” Combined with the number of companies offering healthcare insurance for “Employees only,” The result shows 90% of all Japanese companies (90.1%) provide healthcare insurance for their employees.

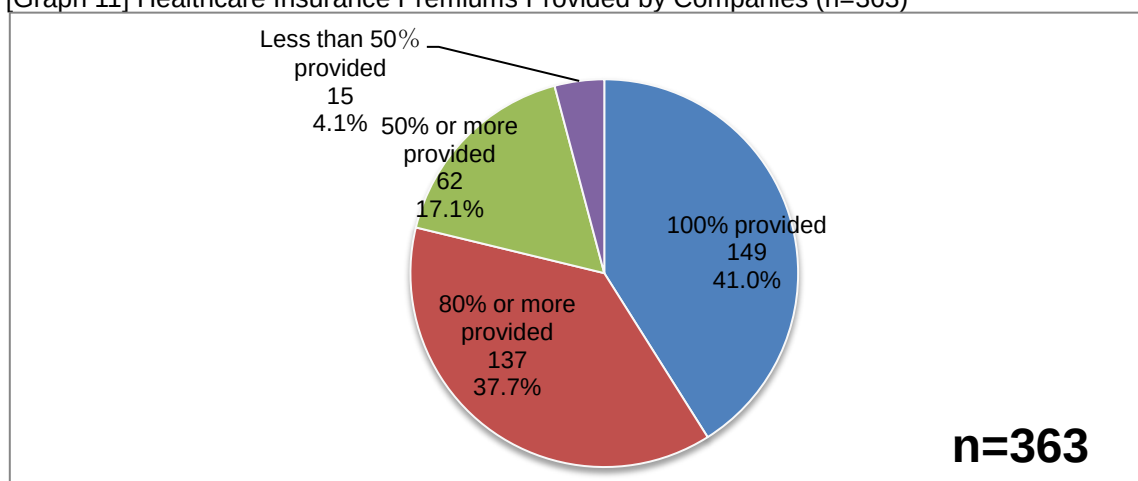
Additionally, roughly 40% of all companies bear the costs of employees’ insurance premiums fully and they, together with the companies contributing at least 80% of the premium costs, account for nearly 80% of the total. These results suggest that Japanese companies provide great healthcare benefits to their employees.

[Graph 10] Healthcare Insurance Provision (n=415)



(Note) “Other” (2.2%) includes combinations of “Employees and their families” and “Employees only,” among others.

[Graph 11] Healthcare Insurance Premiums Provided by Companies (n=363)



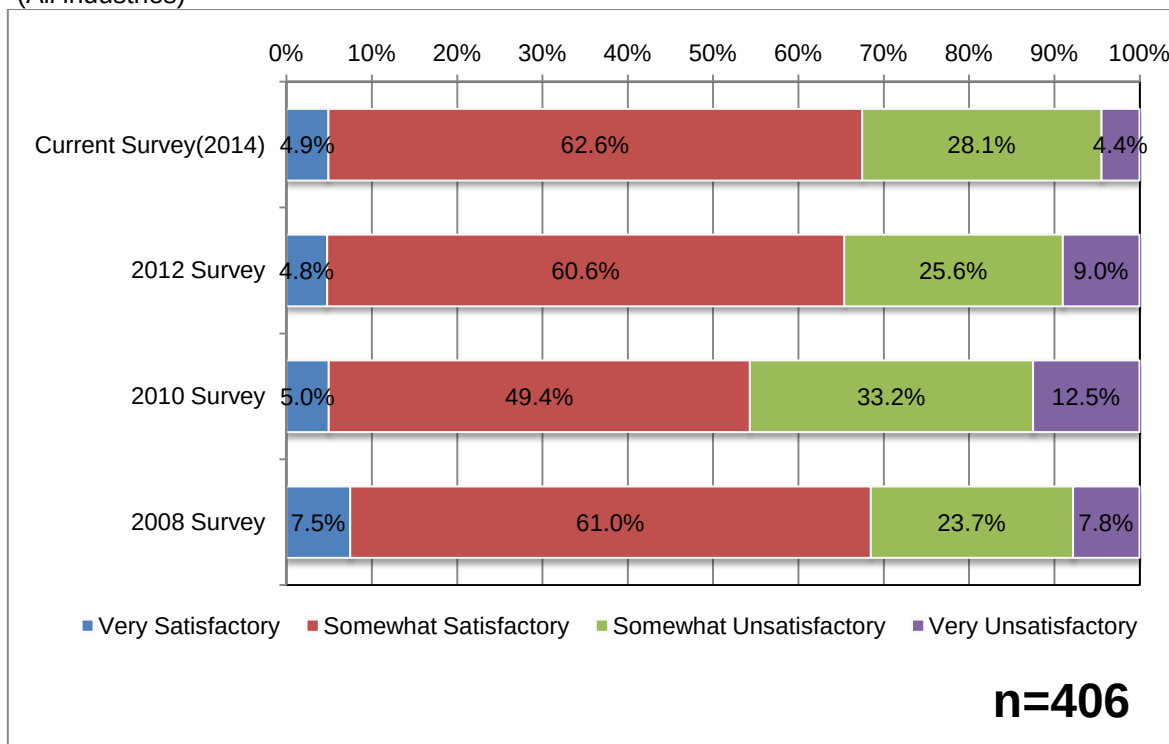
III. Evaluation of Investment and Business Environments

1. Evaluation of business performance

In business performance, 60% of all responses were positive, such as “Very Satisfactory” and “Somewhat Satisfactory”. This was the same trend as the previous survey.

By comparison to past survey, there are less than half (49.4%) of the companies replied as “Somewhat Satisfactory” due to an economic slowdown in 2010, with more than 10% of companies replied as “Very Unsatisfactory” with their business performance.

[Graph 12] Evaluation of Business Performance in Southern California (n=406)
(All industries)



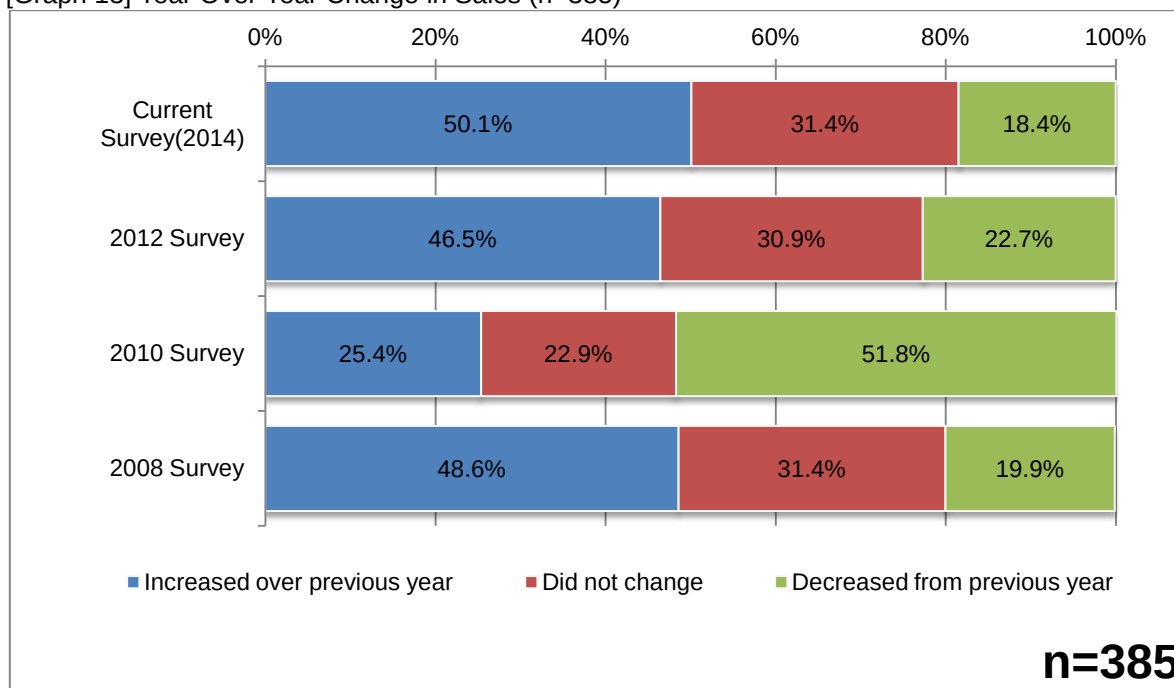
By industry, more than 60% of companies in all industries including Wholesale/Retail and Finance responded as “Very Satisfactory” or “Somewhat Satisfactory.”

(Responses by industry)

Companies which experienced a year-over-year change in sales increased over 50% in current survey with 50.1% of respondents stating sales “Increased over the previous year”. This was substantially increased from the 46.5% in the previous survey. In contrast, companies suffering from sales which “Decreased from the previous year” were reduced from the previous survey (from 22.7% to 18.4%). These results indicate that Japanese companies are headed toward economic recovery.

By comparison, the 2010 survey had found that 51.8% of companies acknowledged their sales “Decreased from the previous year” due to an economic slowdown.

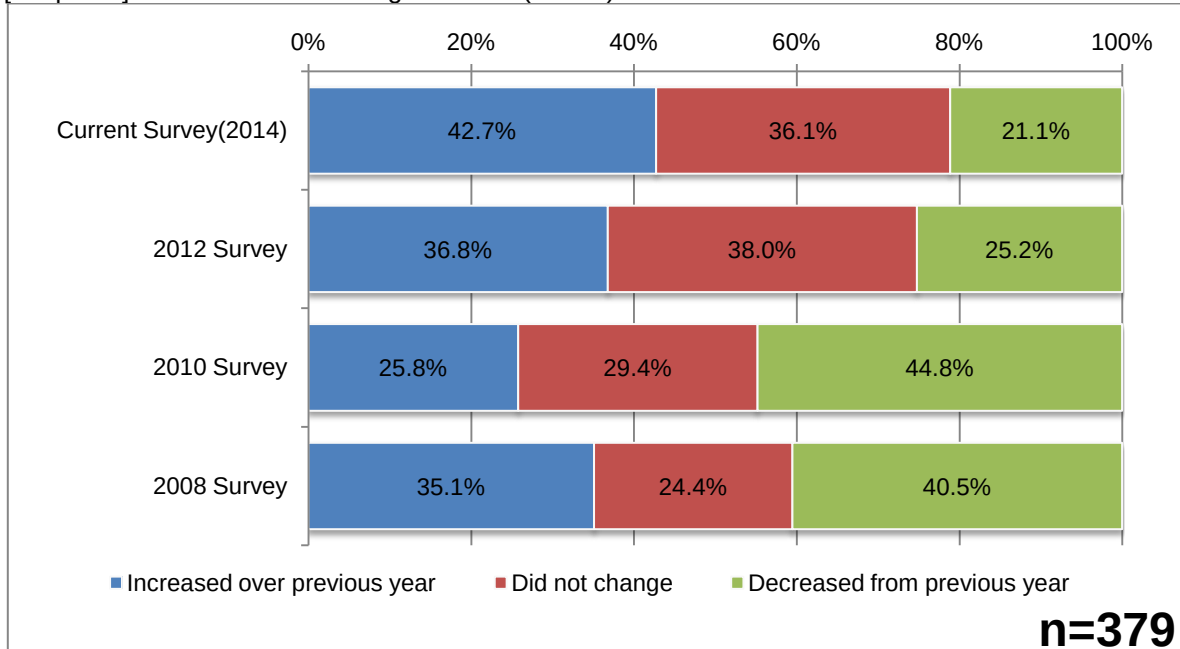
[Graph 13] Year Over Year Change in Sales (n=385)



Year over year changes in profit responses showed companies' profits that "Increased over the previous year" rising from 36.8% in the previous survey to 42.7%. Companies that expected to see profits "Decreased from the previous year" were decreased (from 25.2% to 21.1%).

By comparison, from the 2010 Survey, the percentage of companies whose profits have "Decreased from the previous year" was as high as 44.8%, while "Increased from the previous year" stood at just 25.8%, resulting from economic slowdown.

[Graph 14] Year Over Year Change in Profit (n=379)

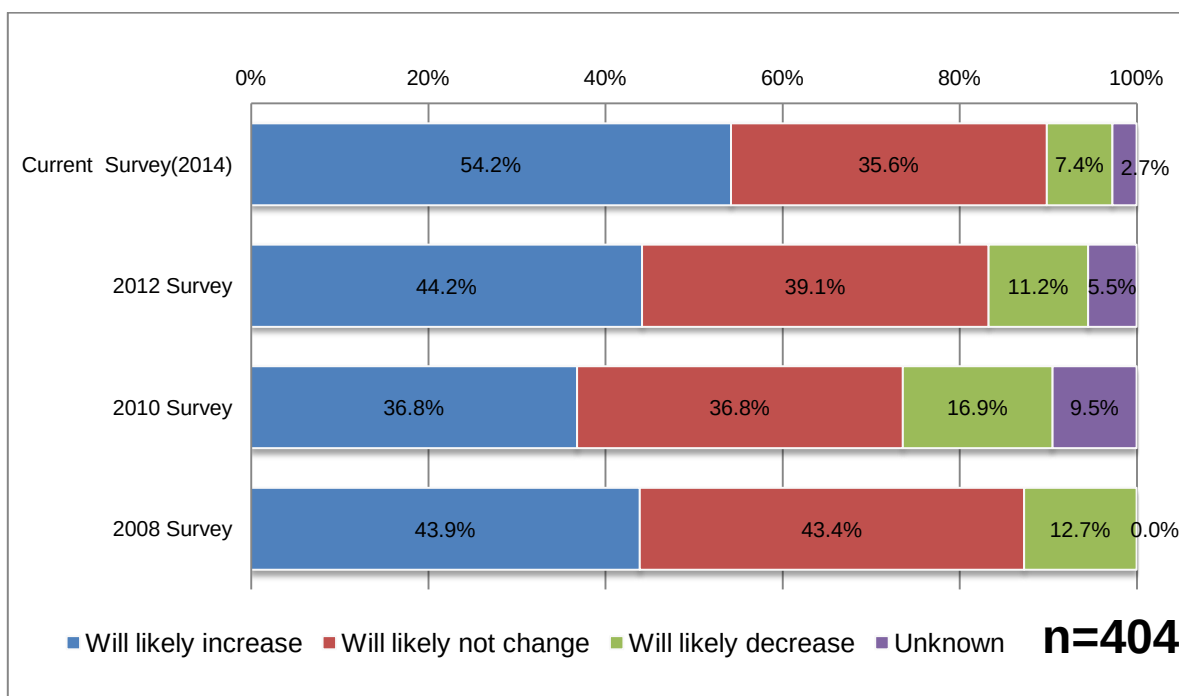


2. Future outlook

As for the outlook on future business performance over the next year or two, “Will likely increase” was increased from 44.2% in the previous survey to 54.2%, while “Will likely decrease” was decreased from 11.2% in the previous survey to 7.4%.

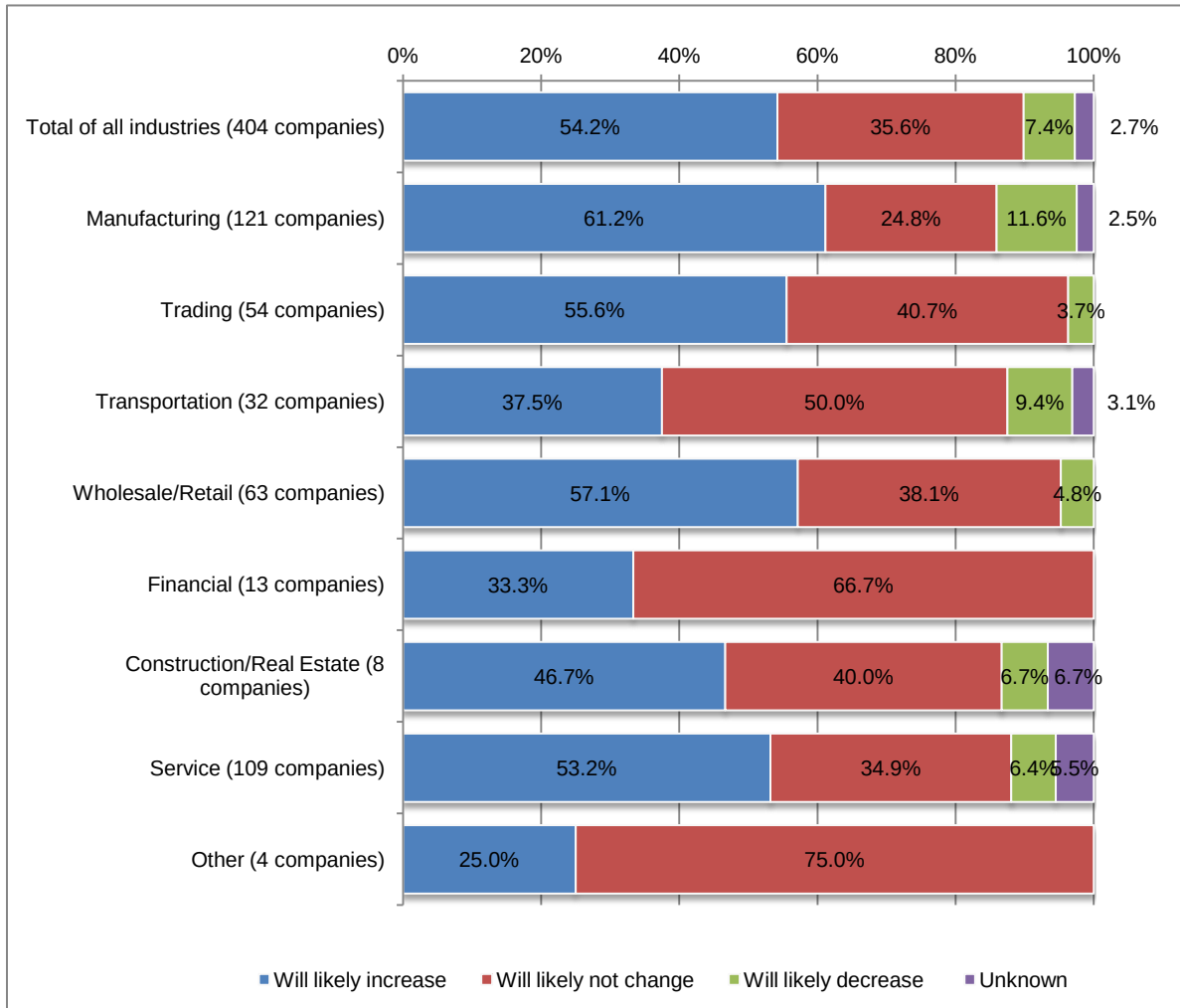
By comparison, only 36.8% of the Japanese companies responding to the 2010 survey were expected their business performance to “Increase from the previous year,” while the 16.9% of companies reached a “Decrease from the previous year”.

[Graph 15] Profit Outlook For the Next 1-2 Years (n=404)



An industry breakdown reveals that over 50% of companies cited profits “Will likely increase” in the “Manufacturing,” “Trading,” “Wholesale/Retail” and “Service” sectors.

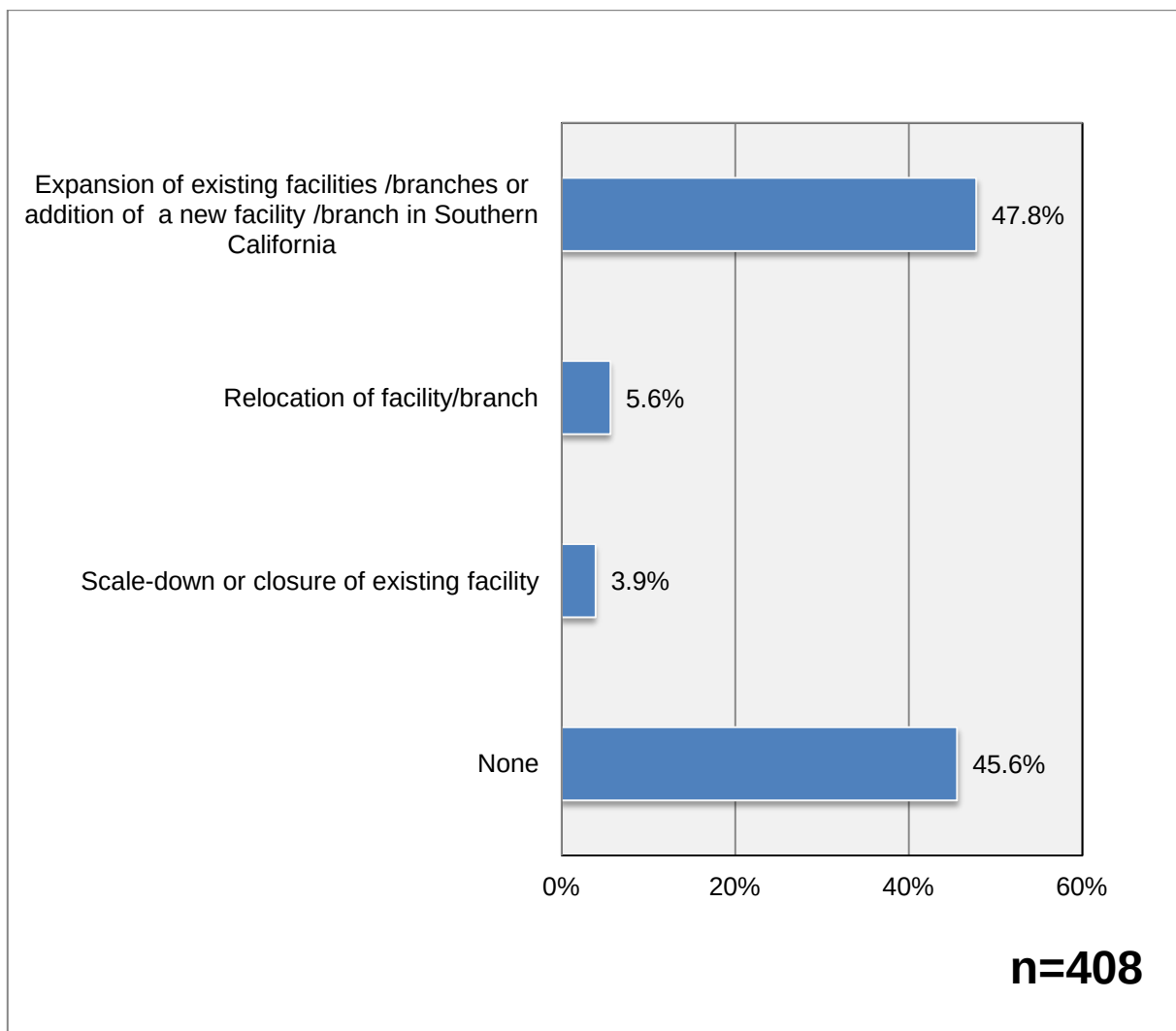
(Responses by industry)



3. Investment and business plans

For investment and business plans over the next year or two, nearly a half of the respondents planned an “Expansion of existing facilities/branches or addition of a new facility/branch in Southern California.”

[Graph 16] Investment and Business Plans for Next 1-2 Years (Multiple responses; n=408)

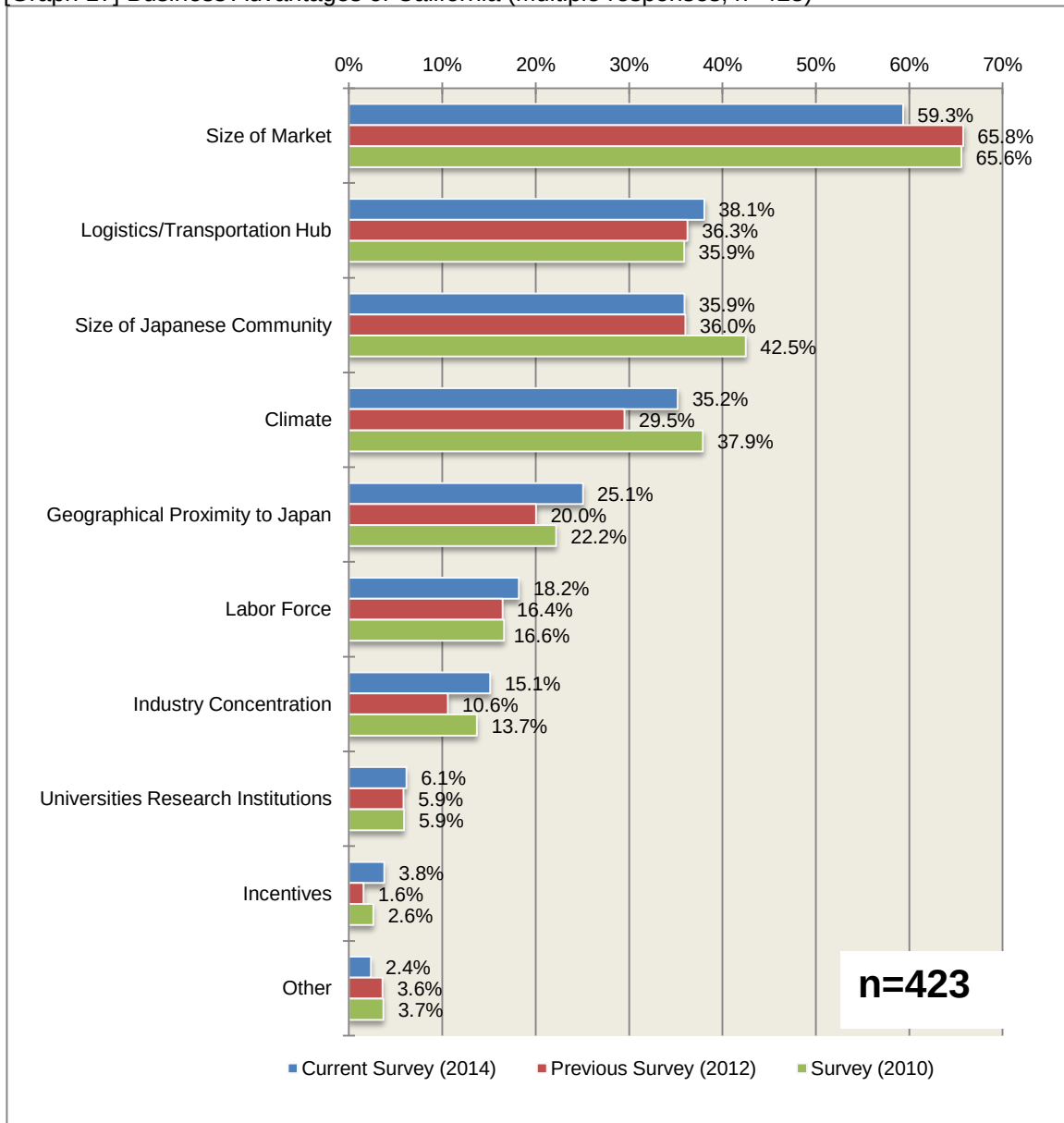


4. Advantages of California

As for the business advantages of California, (a state with a population of about 38 million) the “Size of Market” is a major advantage according to the responses of approximately 59.3% of the 423 companies.

Other advantages are: “Logistics/Transportation Hub” with 38.1% because of its seaports and airports; “Size of the Japanese Community” rated an advantage by 35.9% (as the population of Japanese citizens and residents of Japanese origin in Southern California tops approximately 270,000). Lastly 35.2% listed “Climate” as an advantage.

[Graph 17] Business Advantages of California (Multiple responses; n=423)



By industry, more than half of the companies cited “Size of Market” as an advantage in the “Manufacturing,” “Wholesale/Retail,” “Transportation” and “Service” sectors. On the other hand, 60% of “Trading” and around 90% of “Transportation” sectors cited “Logistics/Transportation Hub,” while more than a half of “Finance” and “Service” sectors cited “Size of Japanese Community” as an advantage.

[Table 5] Advantages of Operating Business in Southern California (by industry)

(Multiple responses; n=423)

		Size of Market	Logistics/Transportation Hub	Size of Japanese Community	Climate	Geographical proximity to Japan	Labor Force	Industry Concentration	Universities, Research Institutions	Incentives	Other
Manufacturing	(126)	63.5%	41.3%	26.2%	36.5%	22.2%	26.2%	12.7%	4.0%	2.4%	5.6%
Trading	(55)	47.3%	60.0%	29.1%	32.7%	40.0%	9.1%	16.4%	3.6%	1.8%	3.6%
Wholesale/Retail	(65)	81.5%	35.4%	18.5%	29.2%	13.8%	13.8%	9.2%	1.5%	1.5%	1.5%
Transportation	(33)	57.6%	87.9%	42.4%	39.4%	27.3%	15.2%	12.1%	3.0%	0.0%	3.0%
Financial	(15)	46.7%	13.3%	66.7%	40.0%	26.7%	6.7%	6.7%	0.0%	0.0%	0.0%
Construction/Real Estate	(9)	44.4%	22.2%	44.4%	44.4%	33.3%	11.1%	11.1%	11.1%	0.0%	0.0%
Service	(115)	52.2%	16.5%	54.8%	35.7%	27.0%	20.0%	22.6%	13.0%	3.5%	3.5%
Other	(5)	40.0%	20.0%	0.0%	40.0%	0.0%	0.0%	20.0%	20.0%	20.0%	20.0%

(Note 1) The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

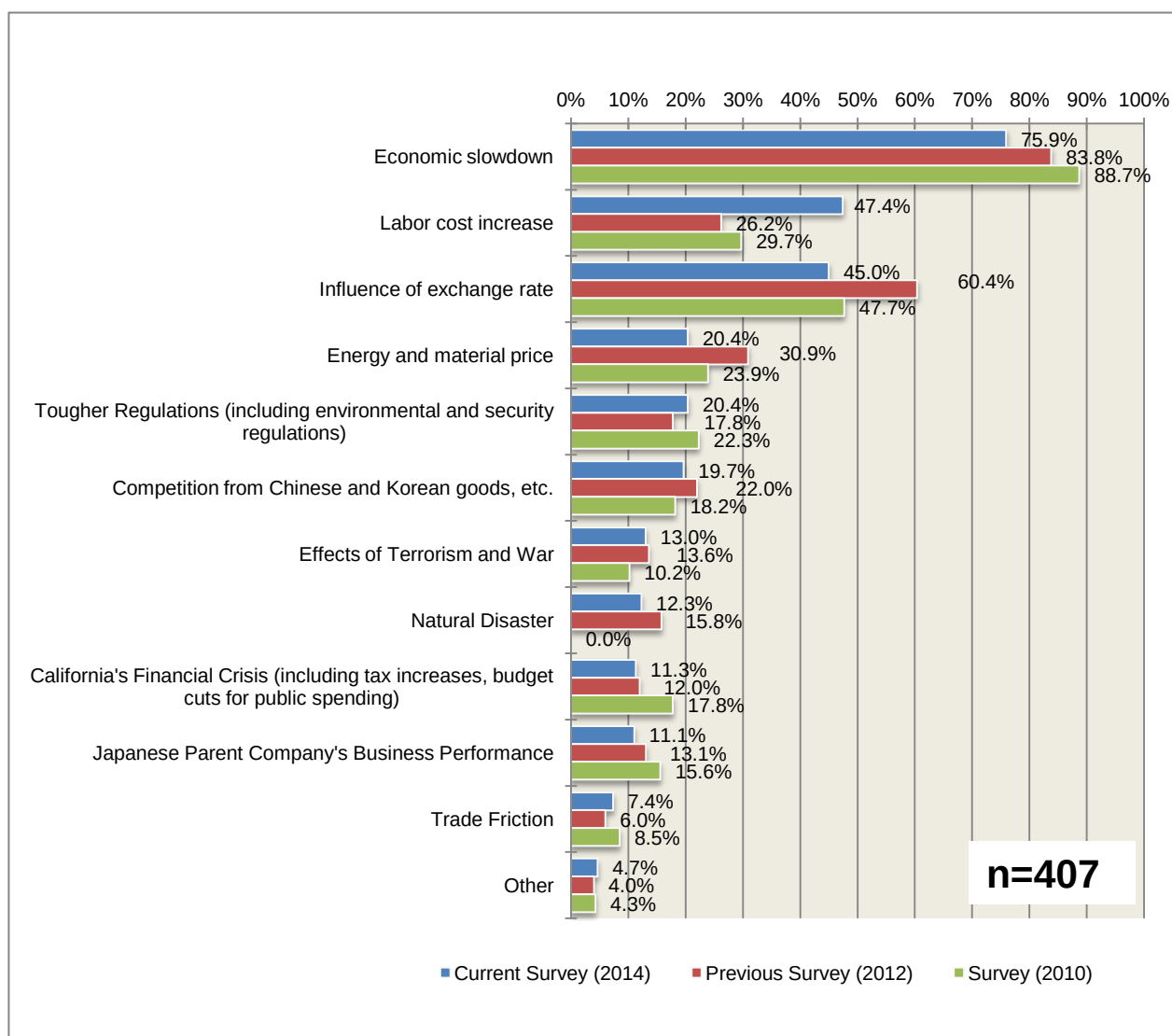
(Note 2) Percentages equal to or greater than 50% are shaded.

5. Concerns over business operations in the future

75.9% cited the “Economic slowdown” as the highest of concerns over business operations in the future, followed by 47.4% citing “Labor cost increase,” 45.1% citing “Influence of exchange rate,” 20.4% of a rise in “Energy and material price” and “Tougher regulations” and 19.7% tabbing “Escalating competition from Chinese and Korean manufactured goods, etc.”

Compared to the previous survey, the share of companies citing “Labor cost increase” rose by 21.2%, with the respondents worried about the rising minimum wage, growing burdens for health insurance premiums, etc. On the other hand, the proportion of companies concerned about “Influence of exchange rate” dropped by 15.4% due to the weakening yen.

[Graph 18] Concerns over Business Operations in the Future (Multiple responses; n=407)



By industry, more than 70% of all industries cited “Economic slowdown” as a major concern. “Influence of exchange rate” was named as a concern by at least 50% of companies in the “Manufacturing,” “Trading,” and “Wholesale/Retail” sectors. As well as, more than 50% of companies in “Transportation,” “Wholesale/Retail” and “Service” sectors were concerned about “Labor cost increase.”

[Table 6] Concerns over Business Operations in the Future (by industry)

(Multiple responses; n=407)

		Economic Slowdown	Influence of Exchange Rate	Labor Cost Increase	Energy and Material Price	Tougher Regulations (including environmental and security regulations)	Escalating Competition from Chinese and Korean Manufactured Goods	California's Financial Crisis (including tax increases, budget cuts for public spending)	Japanese Parent Company's Business performance	Effects of Terrorism and War	Trade Friction	Natural Disaster	Other
Manufacturing	(126 companies)	77.0%	50.0%	46.0%	31.0%	20.6%	36.5%	10.3%	11.1%	10.3%	4.8%	8.7%	4.0%
Trading	(52 companies)	75.0%	59.6%	44.2%	19.2%	7.7%	17.3%	5.8%	7.7%	19.2%	15.4%	7.7%	1.9%
Transportation	(32 companies)	84.4%	21.9%	62.5%	21.9%	50.0%	15.6%	9.4%	18.8%	15.6%	18.8%	12.5%	3.1%
Wholesale/Retail	(62 companies)	75.8%	54.8%	51.6%	16.1%	27.4%	25.8%	8.1%	12.9%	6.5%	3.2%	9.7%	6.5%
Financial	(14 companies)	71.4%	35.7%	21.4%	7.1%	28.6%	7.1%	0.0%	7.1%	21.4%	7.1%	14.3%	0.0%
Construction/Real Estate	(9 companies)	77.8%	22.2%	22.2%	11.1%	0.0%	0.0%	11.1%	0.0%	0.0%	0.0%	33.3%	11.1%
Service	(108 companies)	73.1%	37.0%	50.0%	12.0%	14.8%	2.8%	18.5%	11.1%	15.7%	6.5%	16.7%	6.5%
Other	(4 companies)	75.0%	25.0%	25.0%	50.0%	0.0%	0.0%	25.0%	0.0%	25.0%	0.0%	50.0%	0.0%

(Note 1) The percentages in the table indicate the ratios of companies that selected the applicable item to those responding to the questionnaire.

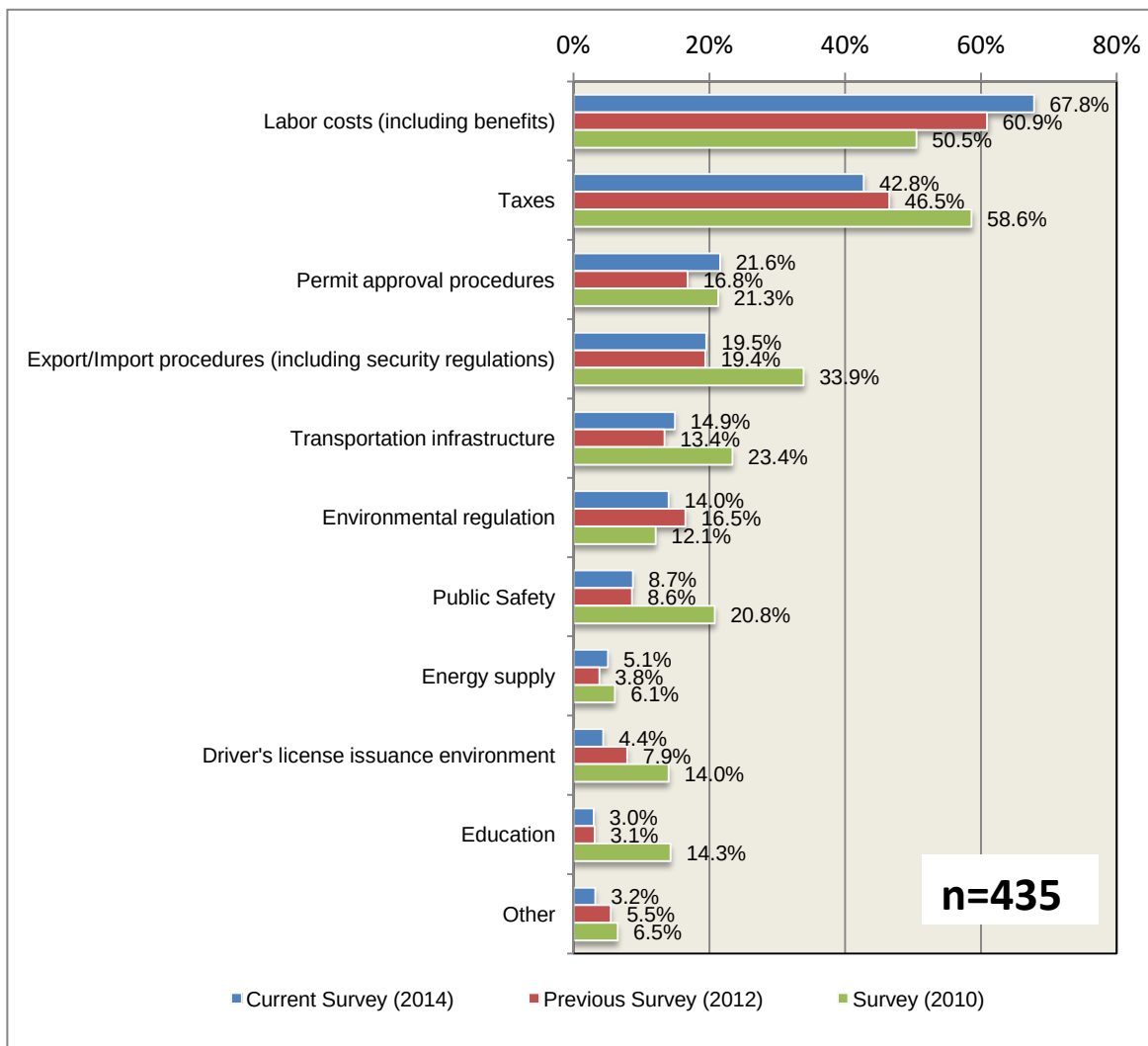
(Note 2) Percentages equal to or greater than 50% are shaded.

6. Disadvantages associated with business operations

Among concerns associated with operating a business in California (multiple answers were allowed), “Labor costs” and “Taxes” are the two highest. The companies surveyed pointed out dissatisfaction over the cost burdens on employers for pensions, health insurance, and higher tax rates compared to other states. “Permit approval procedures” and “Export/Import procedures” followed.

Compared to the previous survey (2012), “Labor costs” increased by 6.9 points, while “Permit approval procedures” increased by 4.8 points.

[Graph 19] Concerns with Operating Business in California (Multiple responses: n=435)



[Reference] Specific Examples of Disadvantages and Requests for Improvement

Issues related to labor costs

<Labor costs>

- Medical insurance costs exceeded \$1.2 million last year. Companies are concerned that the costs might increase further following the introduction of Obama Care.
- Worker's compensation insurance, unemployment insurance and health insurance are responsible for high employment costs, among others.
- Coping with rising medical insurance premiums presents a challenge.
- Labor costs are much higher than in other states, which raises a question as to whether enough sales could be generated to grow the business.
- Medical insurance premiums are rising.
- Health insurance premiums are going up every year.
- The minimum wage is rising, which present a challenge.
- Dealing with Obama Care presents a challenge.
- Personnel expenses and medical insurance are imposing heavy burdens.
- Insurance premiums and allowances continue to rise due to inflation, putting significant burdens on businesses.
- High medical expenses translate to heavy burdens of insurance premiums.
- Profit is squeezed by the cost of employment insurance, especially employment insurance for manual laborers.
- Historically the labor union for dockworkers engaged in fieldwork has always flexed its muscles and consistently opposed automating their work to secure jobs. A universal issue seen in all industries is that the management is heavily burdened with salaries as well as pension/medical costs.
- Paid annual leaves must be converted to cash and paid to retiring employees, which is one of the reasons pushing the employment costs higher.
- We're hoping that the burdens on insured workers will be reduced by the insurance system reform.
- We must pay higher running costs than companies in the same trade in other states.
- Living expenses are higher than in other states, and labor costs are also rising.
- High labor costs are pressuring the bottom line.
- Labor costs are high.

<Labor laws>

- There are so many lawsuits the companies must be excessively cautious.
- There are so many court cases that require a lot of time to handle/resolve.
- Many temporary workers are used, so we are interested in their treatment and the toughening of regulations covering these workers.
- We also have offices in other states and, given the significant differences regarding the terms of employment and layoff risks, we must conclude that it would be wise to invest in, expand business at, and develop human resources in, the sales offices in other states in the long run.
- Employment risks are higher than at our other sites in the U.S.
- We had difficulty dealing with Latino workers. As many workers are hired, some take to stealing. We had a hard time building a system to prevent theft.
- What are commonsense in Japan, including labor practices, do not work. Managing a business without realizing this entails a huge risk. Another problem is that the Japanese parent company is seldom exposed to, and thus does not understand the need for, certain practices.
- Attorney's fees are rising.
- Litigation risks and costs are high.

- There are regulations protecting workers, such as mandatory purchase of paid annual leaves and restrictions on overtime and layoff, but the more the workers are protected, the more difficult it becomes to attract companies.
- California is tough on employers and its employment environment is tough on businesses.
- Given its labor issues, labor laws, high wages, etc., California is a very difficult place to do business for manufacturers. We relocated our factory to other state four years ago, and the aforementioned three items were the greatest drivers to do so. Manufacturers no longer find incentives to operate in California.

<Hiring, recruiting and staffing>

- Securing talented individuals is difficult.
- We are struggling to unite our employees of different ethnic backgrounds and values.
- Rising labor costs makes it difficult to hire and retain talented individuals.
- Not many employees in Japan want to come here and work. The issue is whether or not the business transfer will take place smoothly when Japanese expatriates renew their visas.
- Securing engineers is difficult.

Issues related to tax

- California seems to have higher taxes than other states, and our CPA did advise us to move business assets to other states.
- California has relatively higher tax rates than in other states.
- Given the higher taxes compared to other states, we must generate more sales to absorb them, which presents a challenge.
- Please balance the state budget instead of relying on high corporate taxes.
- The tax system is complex.
- We can no longer offset profit against cumulative loss.

Export/import procedures

- Import clearance is often delayed due to many regulations and changes.
- We can't secure enough margins on some products due to high duties.
- FDA's import audit has become tougher.
- Import/export duties. It is difficult to import products that are available matter-of-factly in Japan. In particular, products using meat extracts and milk products can be exported from the U.S. to Japan, but similar products cannot be imported from Japan to the U.S. The Japanese government should lead the effort to change this unfair situation, especially when it wants to spread Japanese food to the world.

Issues related to permit/license procedures

<State permit/license procedures and other regulations>

- Every time we added a building or facility, we were forced to donate land to the city for future expansion of road width as a condition for issuing a building permit.
- The Fire Department and Public Health Department do not understand the practices in Japan, and we are inconvenienced by their orders to change the kitchen equipment that can be used without problem in Japan.
- Government services are very slow due to personnel cutbacks forced by the state's fiscal issues.
- It takes time to obtain permits and approvals (particularly new permits and approvals under the new regulations), which causes delays in order placement and manufacturing processes.
- It takes time to obtain permits and approvals from the state/local governments when building a factory, which forces us to lose our competitive edge.
- It is hoped that wide-ranging regulations governing factory management will be relaxed to allow for flexible factory operations.
- Possible revisions to state regulations.

<Related to visas/entry application>

- Strict visa application rules. Small and medium enterprises are having a really hard time hiring non-locals. Even if we find talented individuals, we cannot get visas for them.
- Securing talents is difficult due to visa issues, etc. Some talented individuals from Japan are forced to return after several years.
- It has become increasingly difficult to obtain work visas.
- A major challenge is the difficulty of obtaining work visas for employees.
- Getting visas issued to a newly established company requires a lot of hard work.
- Long lines at the immigration and security checkpoints at the Los Angeles International Airport (LAX) create bottlenecks in the further stimulation of California's economy. Staff should be increased to cut the waiting time, and priority lanes should be set up for those passengers who the airlines consider must be escorted, because measures such as these will help more foreign visitors choose Southern California as the gateway to the U.S., which in turn will stimulate the local economy.
- Getting visas for Japanese expatriates is not easy.

<Related to food products>

- The high cost of opening a restaurant means the meals offered at the restaurant must be relatively expensive. We are concerned that households will start eating out less.
- Some regulations on restaurants set forth by the Public Health Department, particularly those regarding the use of wooden cooking utensils and the mandating of gloves at sushi restaurants, create problems for restaurant operations.
- We are closely monitoring the developments regarding FDA regulations.
- How to get selected as a potential F&B tenant presents the greatest challenge. Lesser known Japanese chain restaurants rarely receive invitations for prime real estate from large developers, and if they do, the terms are really unfavorable. The situation may improve as Japanese restaurants make steady efforts to strengthen their brand power, but we believe a better way is to drive public-private partnerships to build more "Japan village" type restaurant clusters, however small. These establishments should stimulate the demand for Japanese retailers/restaurants.

Issues related to environmental regulations

- Environmental standards are so tough the secondary industries have a really hard time mapping out their growth strategies.
- Environmental regulations are tougher than in other states, which makes it difficult for businesses to maintain their competitive edge.

Issues related to public safety

- We had goods stolen from our facilities by intruders.
- We have Japanese employees stationing here or visiting temporarily, so security is paramount.

Other

- Land price is higher than in other states.
- We are in anime business and finding that the wholesale prices in the U.S. command smaller margins because many products from Japan are available. In addition, owners of retailers are non-Japanese Asians who prefer selling pirated copies and versions without proper copyright. The result is that the majority of retailers are being forced to close shop, and the industry as a whole may collapse unless the distribution channels are maintained and retailers are properly educated.
- Companies are spread out and it takes time to travel by car. Drivers cannot drink at social gatherings, so the public transportation system must be improved.
- As everyone is driving, rush-hour traffic is hurting the work efficiency, which presents an issue.
- It takes time to deliver products due to traffic.
- We are hoping that electricity rates will come down. As our production lines consume a lot of electricity, they are operated from 4 am in the morning to reduce cost.
- Coordinating with our New York office despite the time difference and geographical distance presents a challenge.
- We are headquartered in California as the time difference from Japan is less and importing/exporting goods is easier, but our main customers are located in the U.S. Mideast and traveling to the region costs money.
- They say the "U.S. economy is recovering," but we don't actually feel that except that the consumer price index is rising. Gasoline prices are still high and adding to both ordinary expenses and logistic expenses. We are losing faith and unhappy because gasoline is more expensive in California than in the neighboring states.
- We are concerned that the manufacturing sector in California will not grow much going forward, and in fact the percentage of our business outside California is increasing every year.
- It is a problem that Japanese companies are targeting only Japanese in the local Japanese community affected by both the Japanese economy and U.S. economy. Also, the number of Japanese is small and we cannot help but feel a minority when doing business.
- Southern California lies along the seismic belt, so implementing countermeasures to earthquake disaster presents a challenge.
- Getting a new business off the ground in an early stage presents a challenge.
- Do increase/improve export terminals for coal/petroleum products, etc.
- We face many difficulties managing and finding dealers.
- We are struggling to build a network in California where we just set up operation.
- The state should actively invite industries.
- We want support for businesses in general.
- Customers are decreasing as the industry structure of the state changes.
- Communicating with Latin America and other parts of the Americas is difficult.
- Many manufacturing companies have already closed shop and the environment has become tougher for us each year to maintain the current manufacturing operations.
- We recognize that California has become a place not conducive to manufacturing.
- Industries must be developed to replace the consumer electronics/TV industry primarily in the Tijuana area.