

Consolidated Financial Results for the Three Months Ended December 31, 2009

January 28, 2010

Company name:	MTI Ltd.
Stock code:	9438
Shares listed:	Jasdaq Securities Exchange
URL:	http://www.mti.co.jp
Representative:	Toshihiro Maeta, President and Chief Executive Officer
For further information please contact:	Hiroshi Matsumoto, Vice President, Corporate Planning Division TEL: +81-3-5333-6323
Scheduled date of filing of Quarterly Report:	February 15, 2010
Scheduled date of start of dividend payment:	—

(Figures less than one million yen are omitted)

1. Consolidated Financial Results for the three months ended December 31, 2009 (From October 1, 2009 to December 31, 2009)

(1) Consolidated Operating Results

(Millions of yen except for per share amounts)
(Percentages are shown as year-on-year changes)

	Net sales	Operating income	Ordinary income	Net income
For the three months ended December 31, 2009	7,262 (25.2%)	397 (49.4%)	396 (67.1%)	242 (72.1%)
For the three months ended December 31, 2008	5,798 (—)	266 (—)	237 (—)	140 (—)

	Net income per share (Yen)	Net income per share-diluted (Yen)
For the three months ended December 31, 2009	1,804.52	1,793.16
For the three months ended December 31, 2008	1,041.76	1,040.51

(2) Consolidated Financial Position

(Millions of yen except for per share amounts)

	Total assets	Net assets	Equity ratio	Net assets per share (Yen)
As of December 31, 2009	12,499	6,786	53.7%	49,943.85
As of September 30, 2009	12,557	6,807	53.7%	50,227.79

(Reference) Shareholders' equity

As of December 31, 2009: 6,712 million yen

As of September 30, 2009: 6,747 million yen

2. Dividends

(Yen)

	Cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	End of 4Q	Annual
For the year ended September 30, 2009	—	0.00	—	2,000.00	2,000.00
For the year ending September 30, 2010	—				
For the year ending September 30, 2010 (Forecast)		0.00	—	2,000.00	2,000.00

(Note) Revision of dividend forecast for during this period : None

3. Consolidated Forecast for the Fiscal Year Ending September, 2010 (From October 1, 2009 to September 30, 2010)

(Millions of yen except for per share amounts)
(Percentages are shown as year-on-year changes)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (Yen)
For the six months ending March 31, 2010	14,500 (19.5%)	700 (-16.1%)	685 (-14.6%)	380 (-55.9%)	2,827.34
For the year ending September 30, 2010	30,000 (16.6%)	3,000 (35.6%)	2,970 (36.4%)	1,720 (3.0%)	12,797.43

(Note) Revision of Consolidated forecast for during this period : None

4. Others

- (1) Changes in significant subsidiaries during the period
(including changes of specified subsidiaries resulting in change in scope of consolidation): None
Newly consolidated: None Excluded: None
- (2) Application of simplified accounting methods and specified accounting methods in preparing quarterly consolidated financial statements: Yes
Note: Details are shown at “Qualitative Analysis and Financial Statements 4.Others” on page 6
- (3) Changes in accounting principles, procedures, and disclosures methods for preparing quarterly consolidated financial statements
(which should be stated in Changes of Significant Items for Preparation of Quarterly Consolidated Financial Statements)
(i) Changes due to revision of accounting standards: None
(ii) Other changes: None
- (4) Number of shares issued (common stock)
(i) Number of shares issued at end of year (including treasury stock)
As of December 31, 2009: 134,402 shares
As of September 30, 2009: 134,342 shares
(ii) Number of treasury stock at end of year
As of December 31, 2009: — shares
As of September 30, 2009: — shares
(iii) Weighted average number of shares
For three months ended December 31, 2009: 134,377 shares
For three months ended December 31, 2008: 135,238 shares

* Explanations about the appropriate use of the performance forecasts and other noteworthy points

This report contains forward-looking statements on business performance based on the judgments, assumptions, and beliefs of management using the information available at the time. Actual results may differ substantially due to changes in domestic or overseas economic conditions or changes in internal or external business environments or aspects of uncertainty contained in the forecasts, latent risks or various other factors. In addition, risk and uncertainty factors include unpredictable elements that could arise from future events. See “Qualitative information, financial statements, etc.” for assumptions underlying the above forecasts and precautions regarding their use.

[Qualitative information, financial statements, etc.]

1. Qualitative information on consolidated operating results

(1) Overview for the first three months of the year ending September 30, 2010

(From October 1, 2009 to December 31, 2009)

We aggressively rolled out promotional activities to expand the paying subscriber base, mainly for content with growth potential such as health-related information and the much-in-demand decorative e-mail services. As a result, the number of paying subscribers in the content distribution business as of the end of December 2009 increased to 8.62 million, an increase of 0.60 million compared to the end of September 2009.

Net sales grew 25.2% year on year to ¥7,262 million, helped by the increase in paying subscribers. Gross profit was boosted significantly by 33.8% to ¥5,222 million, as the result of increase in the number of paying subscribers to content whose cost of sales ratio is low, such as health-related information and decorative e-mail services, and a decline in the cost of sales ratio in step with a reduction in music content downloads.

Furthermore, the increase in selling, general and administrative expenses, notably in advertising and public relations, payment of commission, outsourcing and personnel expenses, was covered by the significant rise in gross profit, and operating income and ordinary income soared to ¥397million, up 49.4% year on year, and ¥396 million, up 67.1%, respectively.

Net income for the first quarter under review climbed ¥242 million, a rise of 72.1% compared with a year earlier.

Consolidated operating results

(Millions of yen)

	Three months ended December 31, 2009	Three months ended December 31, 2008	Change	
			Amount	Percentage change
Net sales	7,262	5,798	1,463	25.2%
Gross profit	5,222	3,902	1,320	33.8%
Operating income	397	266	131	49.4%
Ordinary income	396	237	159	67.1%
Net income	242	140	101	72.1%

Note: Figures are rounded down to the nearest million yen.

(2) Overview by business segment

1) Content distribution business

In the area of decorative e-mail services, we developed aggressive and effective promotional campaigns using mobile advertising and TV commercials aimed at boosting the number of paying subscribers over the Christmas, year end and new year high-demand season. Two new sites, *Deco Tomo ★ Minideco DX* and *Deco Tomo ★ Animal DX* launched in December 2009 expanded favorably. As a result of the above, the number of paying subscribers as of the end of December 2009 broke the 1 million mark, enlarging the overall paying subscriber base.

Regarding health-related information content, our proactive promotional activities, including the broadcast of cost-effective TV commercials, proved successful as the number of paying subscribers expanded steadily.

In the area of music content, through focusing our efforts on acquiring popular music tracks and developing various promotions, the number of paying subscribers continued to grow in the *music.jp*® site overall.

We also gained further in the area of lifestyle information content through rolling out cost-effective promotional activities focusing on weather forecasts.

As a result of the above, the paying subscriber base as of the end of December 2009 soared to 8.62 million, an increase of 0.60 million compared to the end of September 2009, net sales reached ¥7,160 million, up 26.2% on the same period a year earlier, and operating income amounted to ¥510 million, a rise of 23.0%.

2) Mobile advertising business

We made a concerted effort to stimulate use of services by registered members while minimizing losses accompanying the forward investment. As a result, the number of registered members as of the end of December 2009 reached 4.32 million, an increase of 90,000 compared to the end of September 2009. Net sales in this business amounted to ¥145 million, up 1.4% from a year earlier, with an operating loss of ¥74 million, compared with a loss of ¥128 million for the same period a year earlier.

Net sales by segment (consolidated basis)

(Millions of yen)

	Three months ended December 31, 2009		Three months ended December 31, 2008		Change	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Percentage change
Content distribution business	7,160	98.6%	5,675	97.9%	1,485	26.2%
Mobile advertising business	145	2.0%	143	2.5%	2	1.4%
Total	7,262	100.0%	5,798	100.0%	1,463	25.2%

Note: Figures are rounded down to the nearest million yen.

The above-listed total segment net sales include eliminations and corporate [1Q 2010: ¥(43) million; 1Q 2009: ¥(20) million].

Operating income by segment (consolidated basis)

(Millions of yen)

	Three months ended December 31, 2009		Three months ended December 31, 2008		Change	
	Amount	Operating income ratio	Amount	Operating income ratio	Amount	Percentage change
Content distribution business	510	7.1%	415	7.3%	95	23.0%
Mobile advertising business	(74)	-51.3%	(128)	-89.2%	53	—
Total	397	5.5%	266	4.6%	131	49.4%

Note: Figures are rounded down to the nearest million yen.

The above-listed total segment operating income includes eliminations and corporate [1Q 2010: ¥(37) million; 1Q 2009: ¥(20) million].

2. Qualitative information on the consolidated financial position

(1) Assets, liabilities and net assets

Total assets as of December 31, 2009, amounted to ¥12,499 million, a decrease of ¥57 million from the previous fiscal year-end.

With regard to assets, current assets dropped by ¥29 million year on year largely as a result of decreases in other current assets (advances) and deferred tax assets despite an increase in accounts receivable-trade, while non-current assets dropped by ¥28 million, which was due mainly to decreases in software and investment securities despite an increase in deferred tax assets.

With regard to liabilities, current liabilities rose by ¥5 million due primarily to increases in accounts payable-other and accounts payable-trade, despite decreases in accrued income taxes and others, while non-current liabilities dropped by ¥41 million owing to a decrease in long-term borrowings.

As a result of dividend payments, the balance of net assets decreased by ¥20 million despite the fact that net income of ¥242 million was added to net assets.

	Total assets (Millions of yen)	Net assets (Millions of yen)	Equity ratio	Net assets per share (Yen)
As of December 31, 2009	12,499	6,786	53.7%	49,943.85
As of September 30, 2009	12,557	6,807	53.7%	50,227.79

(2) Consolidated cash flows

Cash and cash equivalents as of December 31, 2009, amounted to ¥1,481 million, a decrease of ¥50 million from the previous fiscal year-end.

Cash flows, according to activity and the factors involved, for the first quarter under review are as follows:

Net cash provided by operating activities resulted in ¥495 million, compared with the inflow of ¥21 million for the same period a year earlier, due to cash inflows which included income before income taxes and depreciation, despite

cash outflow from an increase in accounts receivable-trade.

Net cash used in investing activities amounted to ¥233 million, compared with ¥144 million for the same period a year earlier, due primarily to cash outflows including payments for purchase of intangible assets (mainly of software).

Net cash used in financing activities amounted to ¥312 million, compared with ¥333 million for the same period a year earlier, due to cash outflow factors such as dividend payments.

(Millions of yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Three months ended December 31, 2009	495	(233)	(312)	1,481
Three months ended December 31, 2008	21	(144)	(333)	966
The year ended September 30, 2009	1,740	(1,081)	(551)	1,532

3. Qualitative information on the consolidated forecast for the year ending September 30, 2010

We plan to continue channeling our management resources into the content distribution business in the fiscal year ending September 30, 2010. In addition, we will proactively use advertising and public relations mainly on cost-effective content, including health-related information and music, to further expand the paying subscriber base. With regard to the mobile advertising business, meanwhile, we will strive to establish business foundations while controlling losses from forward investments.

Content distribution business

In the area of health-related information content, which has growth potential, we will work to further boost the paying subscriber base by planning sites that reflect the opinions of women—who are the main users of this content—and by developing aggressive promotional activities, to further strengthen our leading position in this segment.

In the area of music content, which generates much of MTI's sales and profits, we will endeavor to encourage more customers to become members by acquiring popular music tracks and by rolling out our promotional activities. We will also seek to prevent existing customers from withdrawing through campaigns to expand the paying subscriber base in the overall music content.

With regard to decorative e-mail services, we will enhance the lineup of materials in response to seasonal demand and roll out cost-effective promotional activities, in an effort to boost the paying subscriber base.

In the area of other lifestyle information content, we will conduct aggressive and effective promotional activities in more cost-efficient fields while constantly verifying the ratio of change in promotion efficiency according to site and further boost the number of paying subscribers.

In the promising growth market of comic distribution services, we will continue to make efforts to enhance the lineup of content and decrease the withdrawal ratio while controlling losses from such forward investments as promotional activities.

Mobile advertising business

In the mobile advertising business segment, we will focus our efforts on stimulating use of our services by registered members and on strengthening the system infrastructure toward enhancing the media's value while continuing to control losses from forward investments such as promotional activities.

In the meantime, since it is difficult to significantly boost advertising revenues at the present moment, we will work to improve corporate profitability by establishing a new monetizing mechanism and expanding charged income by guiding free-site members onto fee-based MTI sites.

Consolidated earnings forecast figures for the fiscal year ending September 30, 2010, are unchanged from those announced on November 4, 2009.

Earnings forecast for the six months of the year ending September 30, 2010

(From October 1, 2009 to March 31, 2010)

Consolidated basis		
Net sales	¥14,500 million	(Increase of 19.5% y-o-y)
Operating income	¥700 million	(Decrease of 16.1% y-o-y)
Ordinary income	¥685 million	(Decrease of 14.6% y-o-y)
Net income	¥380 million	(Decrease of 55.9% y-o-y)

Earnings forecast for the year ending September 30, 2010

(From October 1, 2009 to September 30, 2010)

Consolidated basis		
Net sales	¥30,000 million	(Increase of 16.6% y-o-y)
Operating income	¥3,000 million	(Increase of 35.6% y-o-y)
Ordinary income	¥2,970 million	(Increase of 36.4% y-o-y)
Net income	¥1,720 million	(Increase of 3.0% y-o-y)

4. Others

- (1) **Changes in significant subsidiaries during the period (including specified subsidiaries resulting in change in scope of consolidation)**

None

- (2) **Application of simplified accounting methods and specified accounting methods in preparing quarterly consolidated financial statements**

(Simplified accounting methods)

Calculation method for estimating doubtful accounts for general claims

Since it is clear that the historical data calculated on December 31, 2009, are largely unchanged compared with the end of the previous fiscal year, calculation of the estimated doubtful accounts is based on the data from the end of September 2009.

(Specified accounting methods in preparing quarterly consolidated financial statements)

None

- (3) **Changes in accounting principles, procedures, and disclosures methods for preparing quarterly consolidated financial statements**

None

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(Thousands of yen)			
	As of December 31, 2009		As of September 30, 2009	
Current assets				
Cash and deposits	¥	1,481,549	¥	1,532,367
Accounts receivable-trade		7,096,066		6,733,666
Supplies		12,594		6,336
Deferred tax assets		567,865		658,367
Other		534,104		769,895
Allowance for doubtful accounts		(361,413)		(340,726)
Total current assets		9,330,766		9,359,907
Non-current assets				
Tangible fixed assets		204,587		213,468
Intangible assets				
Software		1,313,610		1,338,488
Other		6,854		6,765
Total intangible assets		1,320,465		1,345,253
Investments and other assets				
Investments securities		569,097		594,702
Leasehold deposits		593,512		593,512
Deferred tax assets		453,585		420,902
Other		40,665		39,530
Allowance for doubtful accounts		(12,989)		(9,860)
Total investments and other assets		1,643,870		1,638,787
Total non-current assets		3,168,923		3,197,509
Total assets	¥	12,499,690	¥	12,557,417

(Thousands of yen)

	As of December 31, 2009	As of September 30, 2009
Liabilities		
Current liabilities		
Accounts payable-trade	¥ 2,141,687	¥ 1,974,322
Long-term borrowings due within one year	200,196	200,196
Accounts payable-other	1,400,225	1,123,063
Accrued income taxes	75,403	432,006
Allowance for coin usage	852,712	803,064
Other	369,995	502,374
Total current liabilities	5,040,221	5,035,027
Non-current liabilities		
Long-term borrowings	449,461	499,510
Reserve for retirement benefits	130,809	120,409
Negative goodwill	92,968	95,248
Other	141	141
Total non-current liabilities	673,380	715,309
Total liabilities	5,713,601	5,750,336
Net assets		
Shareholders' equity		
Common stock	2,538,504	2,535,392
Capital surplus	3,048,684	3,045,573
Retained earnings	1,097,643	1,123,839
Total shareholders' equity	6,684,832	6,704,805
Unrealized gain (loss) and translation adjustment		
Unrealized gain (loss) on available-for-sale securities	27,720	42,897
Total unrealized gain (loss) and translation adjustment	27,720	42,897
Stock acquisition rights	73,534	59,377
Total net assets	6,786,088	6,807,080
Total liabilities and net assets	¥ 12,499,690	¥ 12,557,417

(2) Consolidated Statements of income

	(Thousands of yen)			
	Three months ended December 31, 2008		Three months ended December 31, 2009	
Net sales	¥	5,798,959	¥	7,262,743
Cost of sales		1,896,958		2,040,005
Gross profit		3,902,000		5,222,738
Selling, general and administrative expenses		3,635,790		4,825,046
Operating income		266,210		397,691
Non-operating income				
Interest income		298		10
Amortization of negative goodwill		2,279		2,279
Other		1,428		3,559
Total non-operating income		4,006		5,849
Non-operating expenses				
Interest expenses		5,417		4,614
Loss on equity investments in affiliates		1,687		12
Consumption taxes adjustment		24,229		—
Other		1,588		2,510
Total non-operating expenses		32,923		7,138
Ordinary income		237,293		396,403
Extraordinary gains				
Gain on sales of investment securities		6		—
Total extraordinary gains		6		—
Extraordinary loss				
Loss on disposal of fixed assets		—		30,380
Loss on sales of shares in affiliated companies		3,503		—
Retirement benefit expenses		89,116		—
Expenses for content-related information		139,527		—
Total extraordinary losses		232,147		30,380
Income before income taxes		5,152		366,022
Income taxes-current		2,684		55,299
Income taxes-deferred		(138,418)		68,235
Total income taxes		(135,733)		123,534
Net income	¥	140,886	¥	242,487

(3) Consolidated Statements of Cash Flows

	(Thousands of yen)			
	Three months ended December 31, 2008		Three months ended December 31, 2009	
Cash flows from operating activities				
Income before income taxes	¥	5,152	¥	366,022
Depreciation and amortization		205,219		235,965
Increase in reserve for retirement benefits		96,434		10,400
Interest and dividends income		(298)		(16)
Allowance for coin usage		71,066		49,648
Increase in accounts receivable – trade		(249,950)		(362,400)
Increase in notes and accounts payable-trade		465,828		167,364
Increase in accounts payable-other		102,223		277,232
Other		81,454		142,481
Subtotal		777,131		886,698
Interest and dividends received		317		16
Interest paid		(5,457)		(4,614)
Income taxes paid		(750,962)		(386,593)
Net cash provided by (used in) operating activities		21,029		495,506
Cash flows from investing activities				
Purchase of intangible fixed assets		(258,210)		(231,242)
Proceeds from sales of stocks of subsidiaries and affiliates		216,000		–
Other		(102,494)		(2,573)
Net cash provided by (used in) investing activities		(144,704)		(233,815)
Cash flows from financing activities				
Payment for acquisition of treasury stock		(154,875)		–
Dividends paid		(135,687)		(268,684)
Other		(43,095)		(43,825)
Net cash provided by (used in) financing activities		(333,657)		(312,509)
Net increase (decrease) in cash and cash equivalents		(457,332)		(50,818)
Cash and cash equivalents at beginning of period		1,442,113		1,532,367
Decrease resulting from elimination of subsidiaries from scope of consolidation		(18,217)		–
Cash and cash equivalents at end of period	¥	966,563	¥	1,481,549

(4) Notes Concerning Going Concern Assumption
None

(5) Notes on Significant Changes in Shareholders' Equity
None

(6) Segment Information

Segment information by business category

For the three months ended December 31, 2008

(Thousands of yen)

	Content distribution business	Mobile advertising business	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	5,675,562	123,397	5,798,959	—	5,798,959
(2) Inter-segment sales and transfers	—	20,535	20,535	(20,535)	—
Total	5,675,562	143,933	5,819,495	(20,535)	5,798,959
Operating income (loss)	415,140	(128,352)	286,787	(20,576)	266,210

Notes: Classification of business segments and principal products and services of each segment

1. Classification of business segments: Business segments have been classified based on contents and characteristics of services.
2. Major products and services of each business segment
Content distribution business: Mobile content distribution (operation of official web sites), advertisement agency
Mobile advertising business: Mobile content distribution (operation of public sites), advertisement agency

For the three months ended December 31, 2009

(Thousands of yen)

	Content distribution business	Mobile advertising business	Total	Eliminations and corporate	Consolidated
Net sales					
(1) Sales to external customers	7,160,766	101,976	7,262,743	—	7,262,743
(2) Inter-segment sales and transfers	—	43,972	43,972	(43,972)	—
Total	7,160,766	145,949	7,306,716	(43,972)	7,262,743
Operating income (loss)	510,433	(74,837)	435,596	(37,904)	397,691

Notes: Classification of business segments and principal products and services of each segment

1. Classification of business segments: Business segments have been classified based on contents and characteristics of services.
2. Major products and services of each business segment
Content distribution business: Mobile content distribution (operation of official web sites), advertisement agency
Mobile advertising business: Mobile content distribution (operation of public sites), advertisement agency

Geographical segment information

For the three months ended December 31, 2008 and 2009

There is no applicable information because the Company has no major subsidiaries or branches in countries or regions outside Japan.

Overseas sales

For the three months ended December 31, 2008 and 2009

There is no applicable information because the Company has no overseas sales.