

Consolidated Financial Results for the Three Months Ended December 31, 2010

January 27, 2011

Company name:	MTI Ltd.
Stock code:	9438
Shares listed:	Osaka Securities Exchange
URL:	http://www.mti.co.jp
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Scheduled date of filing of Quarterly Report:	February 14, 2011
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, 2010 (From October 1, 2010 to December 31, 2010)

(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, 2010	7,961 (9.6%)	902 (126.9%)	895 (126.0%)	276 (14.0%)
For the three months ended December 31, 2009	7,262 (25.2%)	397 (49.4%)	396 (67.1%)	242 (72.1%)

	Net income per share (Yen)	Net income per share-diluted (Yen)
For the three months ended December 31, 2010	2,068.39	—
For the three months ended December 31, 2009	1,804.52	1,793.16

(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, 2010	14,476	8,141	55.0%	59,568.03
As of September 30, 2010	15,091	8,259	54.0%	60,929.15

(Reference) Shareholders' equity

As of December 31, 2010: 7,963 million yen

As of September 30, 2010: 8,145 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, 2010	—	0.00	—	3,500.00	3,500.00
For the year ending September 30, 2011	—				
For the year ending September 2011(Forecast)		0.00	—	3,500.00	3,500.00

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

3. Consolidated Forecast for the Fiscal Year Ending September, 2011 (From October 1, 2010 to September 30, 2011)

(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, 2011	16,500 (9.8%)	1,200 (79.7%)	1,180 (77.3%)	500 (28.0%)	3,740.05
For the year ending September 30, 2011	33,500 (8.6%)	3,600 (14.9%)	3,560 (13.6%)	2,100 (15.1%)	15,708.22

(Note) Revision of Consolidated forecast for during this period : Yes

4. Others

Please refer to page P.6 Others.

(1) Changes in significant subsidiaries (Accompanying changes in scope of the consolidation) : Yes

Newly consolidated: Jibe Mobile K.K.

Excluded: None

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the period under review.

(2) Adoption of simplified accounting methods and specified accounting methods: Yes

(Note) This item indicates whether there was adoption of simplified accounting methods and special accounting methods for the preparation of quarterly consolidated financial statements

(3) Changes in accounting principles, procedures, and disclosures methods

(which should be stated in Changes of Significant Items for Preparation of Quarterly Consolidated Financial Statements)

(i) Changes due to revision of accounting standards: Yes

(ii) Other changes: None

(Note) This item indicates whether there were changes in accounting principles, procedures, presentation methods, and other factors with respect to the preparation of quarterly consolidated financial statements, described in "Changes of Material Matters that are the Basis of Presenting Quarterly Consolidated Financial Statements".

(4) Number of shares issued (common stock)

(i) Number of shares issued at end of year (including treasury stock)

As of December 31, 2010	133,688 shares	As of September 30, 2010	134,388 shares
As of December 31, 2010	— shares	As of September 30, 2010	700 shares
For the three months ended December 31, 2010	133,688 shares	For the three months ended December 31, 2009	134,377 shares

(ii) Number of treasury stock at end of year

(iii) Weighted average number of shares

Indication of quarterly review procedure implementation status

This quarterly earnings report is not subject to quarterly review procedures based upon the Financial Instruments and Exchange Act. Thus, at the time of disclosure of the financial results, the quarterly financial statement review procedures based upon the Financial Instruments and Exchange Act, have not been completed.

Explanation for Appropriate Use of Forecasts and Other Notes

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. Please refer to P.5 "Qualitative Information on Forecast for Consolidated Financial Results" of the Attachment for the assumptions used and other notes

1 Qualitative Information on Results for the First Quarter under Review

(1) Qualitative Information on Consolidated Operating Results

Overview of the three months ended December 31, 2010

(From October 1, 2010 to December 31, 2010)

In the first quarter ended December 31, 2010, in the content distribution service, we worked to increase the number of paying subscribers in content areas offering high promotion cost-effectiveness, such as decorative e-mails, health-related information, and fortune telling, and made efforts to reinforce the profitability of our sites.

In decorative e-mails and fortune telling services, we actively conducted promotions with an emphasis on mobile advertising, in preparation for the year-end and New Year period when the seasonal demand increases, and steadily increased the number of paying subscribers.

In the area of health-related information as well, we successfully expanded the paying subscriber base by means of promotion using television commercials and other vehicles.

In the music content business, we were able to increase the number of paying subscribers by acquiring popular music tracks and conducting effective promotions.

We worked to boost profitability by increasing the number of paying subscribers for the weather information premium service and expanding additional pay-for services for health-related information and fortune telling.

As a result of these activities, the number of paying subscribers increased to 9.62 million as of December 31, 2010 (an increase of 0.24 million compared to September 30, 2010). Net sales for the first quarter rose by 9.6% year on year to ¥7,961 million, supported by an increase of 1.00 million in the number of paying subscribers from December 31, 2009.

Gross profit rose sharply by 13.4% year on year to ¥5,923 million, as a result of the impact of the revenue increase and a decrease in the cost of sales ratio (a decrease to 25.6% from 28.1%) accompanying higher contributions from health-related information and other services with low cost of sales ratios.

Operating income rose by 126.9% to ¥902 million, and ordinary income increased by 126.0% to ¥895 million. The increases are attributable to a significant increase in gross profit and lower advertising expenses resulting from the tightening of promotion standards, which offset increases in personnel expenses, payment of commission, and other expenses.

First quarter net income was ¥276 million, an increase of 14.0% compared with a year earlier, as the recording of extraordinary losses of ¥264 million and the impact of the consequent tax effect partially offset the increase in ordinary income.

In addition, although we made Jibe Mobile K.K. (a social address book application provider) and Listen Japan, Inc. (a music distribution service and music information provider) subsidiaries in November and December 2010, respectively, since December 31, 2010 is the deemed acquisition date, only their Balance Sheets are consolidated in the first quarter.

Consolidated operating results (From October 1, 2010 to December 31, 2010)

(Millions of yen)

	Three months ended December 31, 2010	Three months ended December 31, 2009	Change	
			Amount	Percentage change
Net sales	7,961	7,262	698	9.6%
Gross profit	5,923	5,222	700	13.4%
Operating income	902	397	504	126.9%
Ordinary income	895	396	499	126.0%
Net income	276	242	34	14.0%

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

(2) Qualitative Information on Consolidated Financial Position

1) Assets, liabilities, and net assets

Total assets as of December 31, 2010 were ¥14,476 million, a decrease of ¥614 million from September 30, 2010.

Current assets fell by ¥1,090 million, mainly due to a decrease in cash and deposits, despite an increase in accounts receivable-trade. Non-current assets rose by ¥476 million, mainly due to increases in goodwill and software.

Current liabilities fell by ¥575 million, primarily due to a decrease in accrued income taxes, despite increases in accounts payable-trade and accounts payable-other. Non-current liabilities rose by ¥78 million, mainly due to an increase in other non-current liabilities (long-term accounts payable-other), despite decreases in long-term borrowings.

Net assets decreased by ¥117 million due to the payment of cash dividends, despite the recording of ¥276 million in net income.

	Total assets (Millions of yen)	Net assets (Millions of yen)	Equity ratio	Net assets per share (Yen)
As of December 31, 2010	14,476	8,141	55.0%	59,568.03
As of September 30, 2010	15,091	8,259	54.0%	60,929.15

2) Consolidated cash flows

Cash and cash equivalents as of December 31, 2010 totaled ¥2,234 million, a decrease of ¥864 million from September 30, 2010. Cash flows and factors affecting cash flows in the first quarter are as follows.

Net cash provided by operating activities was ¥228 million, compared with ¥495 million in the first quarter of the previous year. The principal cash inflow items were income before income taxes and depreciation and amortization, which offset cash outflows for income taxes paid and other items.

Net cash used in investing activities was ¥575 million, compared with ¥223 million in the first quarter of the previous year, principally due to payments for purchases of investments in subsidiaries and payments for the purchase of intangible fixed assets (mainly software).

Net cash used in financing activities was ¥517 million, compared with ¥312 million in the first quarter of the previous year, principally due to dividend paid.

	(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, 2010	228	(575)	(517)	2,234
Three months ended December 31, 2009	495	(233)	(312)	1,481
Year ended September 30, 2010	3,175	(1,004)	(604)	3,099

(3) Qualitative Information on Forecast for Consolidated Financial Results

In the second quarter and beyond, we will continue efforts to increase the number of paying subscribers for content distribution services and bolster profitability. We also plan to vigorously move ahead with activities to establish new growth businesses, notably smartphone services.

To expand the paying subscriber base, we will conduct promotions in areas where further expansion can be expected, with an emphasis on health-related information, while verifying cost effectiveness.

To bolster profitability, we will undertake to increase the number of members for premium services and to increase spending per customer by providing additional services at our sites, focusing on weather information and health-related information sites.

To establish new growth businesses, we will expand the service lineup with the aim of expanding the paying subscriber base. We will also proceed with diversification of payment methods to increase customer convenience, notably carrier billing, and consider effective promotion methods.

We will take measures to reinforce linkage between our existing sites and “*jibe*”, the social address book application of Jibe Mobile K.K., our newly consolidated subsidiary, and utilize “*jibe*” as a new vehicle for promoting subscriptions to our smartphone services. At the same time, we will seek to increase the awareness and popularity of “*jibe*”.

In addition, we have revised upward operating income and ordinary income in the “Earnings forecast for the six months of the year ending September 30, 2011” announced on November 4, 2010.

Earnings forecast for the six months of the year ending September 30, 2011

(From October 1, 2010 to March 31, 2011)

Consolidated basis		
Net sales	¥16,500 million	(Increase of 9.8% YoY)
Operating income	¥1,200 million	(Increase of 79.7% YoY)
Ordinary income	¥1,180 million	(Increase of 77.3% YoY)
Net income	¥500 million	(Increase of 28.0% YoY)

Earnings forecast for the year ending September 30, 2011

(From October 1, 2010 to September 30, 2011)

Consolidated basis		
Net sales	¥33,500 million	(Increase of 8.6% YoY)
Operating income	¥3,600 million	(Increase of 14.9% YoY)
Ordinary income	¥3,560 million	(Increase of 13.6% YoY)
Net income	¥2,100 million	(Increase of 15.1% YoY)

2 Others

(1) Changes in Significant Subsidiaries (Change in Scope of Consolidation of Specified Subsidiaries)

The Company subscribed to shares in a third-party allocation of shares implemented by Jibe Mobile K.K. on November 26, 2010 and obtained stock acquisition rights from rights holders and exercised those rights on December 27, 2010. As a result, Jibe Mobile K.K. meets the conditions for a specified subsidiary and has been included in the scope of consolidation from the first quarter of the year ending September 30, 2011.

In changes in matters related to the scope of consolidation, the following three companies were added, including Jibe Mobile K.K.

(Increase Due to Newly Consolidated Subsidiaries)

Jibe Mobile K.K., Listen Japan, Inc., MShift, Inc.

Since December 31, 2010 is the deemed acquisition date for each of these companies, only their Balance Sheets are consolidated in the first quarter under review.

(2) Adoption of Simplified Accounting Methods and Specified Accounting Methods

(Simplified Accounting Methods)

Calculation Method of the Allowance for Doubtful Accounts for Ordinary Receivables

Since it is deemed that there is no significant difference between the loan loss ratio, etc. as of December 30, 2010 and those calculated as of September 30, 2010, the allowance for doubtful accounts has been calculated using the loan loss ratio, etc. as of September 30, 2010.

(Specified Accounting Methods Used in Preparing the Quarterly Consolidated Financial Statements)

None

(3) Changes in Accounting Principles, Procedures, and Disclosures Methods

(Changes in Accounting Standard)

1) Application of "Accounting Standard for Asset Retirement Obligations"

Beginning in the first quarter of the fiscal year ending September 30, 2011, the Company has applied "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008). As a result, operating income and ordinary income decreased by ¥1,652 thousand, and income before income taxes decreased by ¥29,474 thousand.

2) Application of "Accounting Standard for Business Combinations" and others

Beginning in the first quarter of the fiscal year ending September 30, 2011, the Company has applied "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, December 26, 2008), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

(Change in Disclosures Methods)

(Consolidated Statements of Income)

Based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 December 26, 2008), the Company applies the "Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No.5, March 24, 2009). As a result, "Income before minority interests" is included in the consolidated financial statements for the first quarter of the year ending September 30, 2011.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2010	As of September 30, 2010
ASSETS		
Current assets		
Cash and deposits	2,234,023	3,099,008
Accounts receivable-trade	7,784,968	7,669,115
Deferred tax assets	562,727	789,718
Other	540,321	647,752
Allowance for doubtful accounts	(340,458)	(333,355)
Total current assets	10,781,582	11,872,239
Non-current assets		
Tangible fixed assets	268,191	229,093
Intangible fixed assets		
Software	1,633,206	1,511,065
Goodwill	441,862	—
Other	14,041	11,439
Total intangible assets	2,089,110	1,522,504
Investments and other assets		
Investment securities	260,286	324,413
Leasehold deposits	427,453	594,264
Deferred tax assets	572,631	508,979
Other	88,110	50,298
Allowance for doubtful accounts	(10,406)	(10,402)
Total investments and other assets	1,338,074	1,467,553
Total non-current assets	3,695,376	3,219,151
Total assets	14,476,959	15,091,391

(Thousands of yen)

	As of December 31, 2010	As of September 30, 2010
LIABILITIES		
Current liabilities		
Accounts payable-trade	2,281,427	1,979,920
Long-term borrowings due within one year	200,196	200,196
Accounts payable-other	1,678,051	1,359,546
Accrued income taxes	171,384	1,248,988
Provision for bonuses	146,169	—
Allowance for coin usage	810,398	869,627
Other	424,803	629,230
Total current liabilities	5,712,430	6,287,509
Non-current liabilities		
Long-term borrowings	249,265	299,314
Reserve for retirement benefits	182,831	158,934
Negative goodwill	83,851	86,130
Other	107,096	141
Total non-current liabilities	623,044	544,520
Total liabilities	6,335,475	6,832,029
NET ASSETS		
Shareholders' equity		
Common stock	2,562,740	2,562,740
Capital surplus	3,072,920	3,072,920
Retained earnings	2,298,471	2,580,485
Treasury stock	—	(90,624)
Total shareholders' equity	7,934,133	8,125,522
Unrealized gain and translation adjustment		
Unrealized gain on available-for-sale securities	30,618	21,564
Translation adjustment	(1,220)	(1,590)
Total unrealized gain and translation adjustment	29,398	19,973
Stock acquisition rights	126,484	113,865
Minority interests	51,467	—
Total net assets	8,141,484	8,259,361
Total liabilities and net assets	14,476,959	15,091,391

(2) Consolidated Statements of income

For the three months ended December 31, 2009 and 2010

(Thousands of yen)

	Three months ended December 31, 2009	Three months ended December 31, 2010
Net sales	7,262,743	7,961,105
Cost of sales	2,040,005	2,037,424
Gross profit	5,222,738	5,923,681
Selling, general and administrative expenses	4,825,046	5,021,360
Operating income	397,691	902,321
Non-operating income		
Interest income	10	60
Amortization of negative goodwill	2,279	2,279
Gain on reversal of stock acquisition rights	—	1,605
Other	3,559	3,418
Total non-operating income	5,849	7,363
Non-operating expenses		
Interest expenses	4,614	3,998
Equity in loss of affiliates	12	1,352
Recovery expenses	—	7,644
Other	2,510	866
Total non-operating expenses	7,138	13,861
Ordinary income	396,403	895,822
Extraordinary losses		
Loss on retirement of non-current assets	30,380	—
Loss on devaluation of investment securities	—	75,413
Goodwill impairment loss	—	161,096
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	27,821
Total extraordinary losses	30,380	264,332
Income before income taxes	366,022	631,490
Income taxes-current	55,299	197,847
Income taxes-deferred	68,235	157,124
Total income taxes	123,534	354,972
Income before minority interests	—	276,518
Minority interests in net income	—	—
Net income	242,487	276,518

(3) Consolidated Statements of Cash Flows

	(Thousands of yen)	
	Three months ended December 31, 2009	Three months ended December 31, 2010
Cash flows from operating activities		
Income before income taxes	366,022	631,490
Depreciation and amortization	235,965	258,152
Allowance for coin usage	49,648	(59,229)
Increase in reserve for retirement benefits	10,400	23,897
Interest and dividends income	(16)	(67)
Interest expenses	4,614	3,998
Loss on devaluation of investment securities	—	75,413
Goodwill impairment loss	—	161,096
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	27,821
Increase in accounts receivable-trade	(362,400)	(65,122)
Increase in accounts payable-trade	167,364	297,669
Increase in accounts payable-other	277,232	159,541
Other	137,866	(37,961)
Subtotal	886,698	1,476,699
Interest and dividends income received	16	67
Interest paid	(4,614)	(3,998)
Income taxes paid	(386,593)	(1,244,358)
Net cash provided by (used in) operating activities	495,506	228,410
Cash flows from investing activities		
Purchase of intangible fixed assets	(231,242)	(339,615)
Purchase of investment in subsidiaries resulting in change in the scope of consolidation	—	(364,111)
Proceeds from collection of leasehold deposits	—	140,608
Other	(2,573)	(12,319)
Net cash provided by (used in) investing activities	(233,815)	(575,438)
Cash flows from financing activities		
Dividends paid	(268,684)	(467,908)
Other	(43,825)	(50,049)
Net cash provided by (used in) financing activities	(312,509)	(517,957)
Net increase (decrease) in cash and cash equivalents	(50,818)	(864,984)
Cash and cash equivalents at beginning of period	1,532,367	3,099,008
Cash and cash equivalents at end of period	1,481,549	2,234,023

(4) Notes Concerning Going Concern Assumption

None

(5) Segment Information

Segment information by business category

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, 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, 2009

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

Segment Information

For the three months ended December 31, 2010

The MTI Group provides mobile phone content distribution (site operation) and related services. Although previously the Company disclosed information by classifying operations into two segments, the content distribution business and the mobile advertising business, our major objective is not to independently operate the mobile advertising business as an advertising revenue-driven business, but for the mobile advertising business to perform the function of sending customers to the content distribution business (pay-per-use site). Since the two businesses are in a mutually complementary relationship, the Company allocates enterprise resources and evaluates business performance on a groupwide basis. Accordingly, only one business segment exists, and, as a result, such segment information has been omitted.

(Additional Information)

Beginning in the first quarter of the fiscal year ending September 30, 2011, the Company has applied “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008).

(6) Notes on Significant Changes in Shareholders' Equity

None