

Consolidated Financial Results for the Nine Months of the Fiscal Year Ended September 30, 2012

July 26, 2012

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 Quartely Report:	August 9, 2012
Scheduled date of start of dividend payment:	—

(Figures less than one million yen are omitted)

1. Consolidated Financial Results for the Nine Months of the Fiscal Year Ended September 30, 2012 (From October 1, 2011 to June 30, 2012)

(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 nine months ended June 30, 2012	21,952	1,654	1,646	411
	(-10.4%)	(-41.8%)	(-41.9%)	(-72.7%)
For the nine months ended June 30, 2011	24,486	2,843	2,833	1,506
	(6.9%)	(46.1%)	(45.4%)	(34.7%)

(Note) Comprehensive Income

For the nine months ended June 30, 2012: 371 million yen (-75.1%)

For the nine months ended June 30, 2011: 1,496 million yen (0.9%)

	Net income per share (Yen)	Net income per share-diluted (Yen)
For the nine months ended June 30, 2012	3,161.47	—
For the nine months ended June 30, 2011	11,266.19	—

(2) Consolidated Financial Position

(Millions of yen except for per share amounts)

	Total assets	Net assets	Equity ratio
As of June 30, 2012	13,850	9,162	64.6%
As of September 30, 2011	15,881	9,670	59.7%

(Reference) Shareholders' equity

As of June 30, 2012: 8,942 million yen

As of September 30, 2011: 9,488 million yen

2. Dividends

(Yen)

	Cash dividends per share				
	End of Q1	End of Q2	End of Q3	End of Q4	Annual
For the year ended September 30, 2011	—	0.00	—	4,000.00	4,000.00
For the year ended September 30, 2012	—	0.00	—	—	—
For the year ended September 30, 2012 (Forecast)	—	—	—	4,000.00	4,000.00

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

3. Consolidated Forecast for the Fiscal Year Ended September 30, 2012 (From October 1, 2011 to September 30, 2012)

(Millions of yen except for per share amounts)

(Percentages figures are presented in comparison with the same period of the previous fiscal year)

	Net sales	Operating income	Ordinary income	Net income	Net income per share (Yen)
For the year ended September 30, 2012	30,000	1,800	1,780	500	3,867.36
	(-7.2%)	(-51.4%)	(-51.8%)	(-72.2%)	

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

4. Others

(1) Changes in significant subsidiaries (Accompanying changes in scope of the consolidation) : None

Newly consolidated: None.

Excluded: None

(2) Adoption of simplified accounting methods and specified accounting methods: None

(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: None

(ii) Other changes: None

(iii) Changes to Accounting Estimates: None

(iv) Restatements: None

(4) Number of shares issued (common stock)

(i) Number of shares issued at end of year (including treasury stock)	As of June 30, 2012	133,688 shares	As of September 30, 2011	133,688 shares
(ii) Number of treasury stock at end of year	As of June 30, 2012	4,401 shares	As of September 30, 2011	— shares
(iii) Weighted average number of shares	For the nine months ended June 30, 2012	130,005 shares	For the nine months ended June 30, 2011	133,688 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.3 “Qualitative Information on Forecast for Consolidated Financial Results” of the Attachment for the assumptions used and other notes

·Net income per share in the consolidated forecast for the fiscal year ended September 30, 2012 is calculated with consideration for disposal of treasury stock from October 2011 to June 2012.

·The Company is planning to hold a quarterly briefing on these consolidated financial results for investors and analysts on July 27, 2012. The video of the briefing will be made available on the Company’s website, along with supplementary explanatory documents regarding the briefing, soon after the briefing.

1 Qualitative Information on Results for the Third Quarter under Review

(1) Qualitative Information on Consolidated Operating Results

Overview of the nine months of the fiscal year ended September 30, 2012

(From October 1, 2011 to June 30, 2012)

In the mobile content market, since migration from feature phones to smartphones is proceeding rapidly, we regarded this as a favorable opportunity to expand services for smartphones and focused on increasing the number of paying subscribers for these services and enhancing service functions. Specifically, in order to increase the number of paying subscribers, we continued to actively engage in promotional activities and introduce new services. And to enhance service functions, in the music content distribution service, we implemented a mechanism that enables subscribers to purchase music using T Points and made services in major categories available for iPhone users. As a result, the number of paying subscribers reached 2.29 million as of June 30, 2012 (an increase of 1.56 million compared to September 30, 2011).

Meanwhile, in services for feature phones, the number of paying subscribers continued to decrease due to the rapid migration from feature phones to smartphones, resulting in a paying subscriber base of 5.75 million as of June 30, 2012 (a decrease of 2.46 million compared to September 30, 2011).

Consequently, the total number of paying subscribers as of June 30, 2012 was 8.04 million (a decrease of 0.9 million compared to September 30, 2011).

Net sales were ¥21,952 million on a decrease in the total number of paying subscribers (fell by 10.4% to the previous third quarter).

Gross profit decreased to ¥17,591 million (decrease of 5.4% year on year). Although the cost of sales ratio fell (from 24.1% in the previous third quarter to 19.9%) accompanying a decrease in the number of downloads in music distribution and higher sales contributions from lifestyle information-related services with low cost of sales ratios, this was not sufficient to fully offset the decline in revenue.

Operating income and ordinary income decreased due to the decline in gross profit coupled with a slight increase in selling, general and administrative expenses from the same period of the previous year, due mainly to increases in outsourcing expenses and personnel expenses, despite the controlling of advertising expenses for services for feature phones with an emphasis on cost-effectiveness, resulted respectively to ¥1,654 million (a decrease of 41.8% year on year) and to ¥1,646 million (a decrease of 41.9% year on year).

Net income, due to the recording of extraordinary losses for goodwill impairment loss, loss on retirement of noncurrent assets and other items, resulted to ¥411 million (a decrease of 72.7% year on year).

Consolidated operating results (from October 1, 2011 to June 30, 2012)

(Millions of yen)

	Nine months ended June 30, 2012	Nine months ended June 30, 2011	Change	
			Amount	Percentage change
Net sales	21,952	24,486	(2,534)	-10.4%
Gross profit	17,591	18,588	(996)	-5.4%
Operating income	1,654	2,843	(1,188)	-41.8%
Ordinary income	1,646	2,833	(1,186)	-41.9%
Net income	411	1,506	(1,095)	-72.7%

Note: Figures less than one million yen are omitted.

(2) Qualitative Information on Consolidated Financial Position

Assets, liabilities, and net assets

Total assets as of June 30, 2012 were ¥13,850 million, a decrease of ¥2,030 million from September 30, 2011.

Current assets fell by ¥2,094 million, mainly due to decreases in cash and deposits and accounts receivable-trade. Noncurrent assets rose by ¥63 million, mainly due to an increase in software, which offset a decrease in

goodwill.

Current liabilities fell by ¥1,467 million, mainly due to decreases in income taxes payable and accounts payable-trade. Noncurrent liabilities fell by ¥54 million, mainly due to a decrease in long-term loans payable, which offset an increase in provision for retirement benefits.

Net assets decreased by ¥508 million, mainly due to the purchase of treasury stock and the payment of cash dividends, despite the recording of ¥411 million in net income.

	Total assets (Millions of yen)	Net assets (Millions of yen)	Equity ratio	Net assets per share (Yen)
As of June 30, 2012	13,850	9,162	64.6%	69,163.99
As of September 30, 2011	15,881	9,670	59.7%	70,973.21

(3) Qualitative Information on Forecast for Consolidated Financial Results

To expand business performance in the fiscal year ended September 30, 2013 and beyond, we will continue to focus on expansion of the number of paying subscribers for services for smartphones and implementation of service functional enhancements. In addition, with a view to achieving medium-term growth, we will actively pursue to establish new growth businesses.

To increase the number of paying subscribers for services for smartphones, we will actively engage in promotional activities in the summer selling season, when new smartphone handsets are launched. We also plan to introduce in August 2012 an AR and smartphone application linking service that will enable subscribers to enjoy the official trading card game of AKB48, a popular idol group.

In the music content distribution service, we plan to support *music.jp* and *music.jp PLAY*, a PC-based music management tool, for use on iPhones and iPads. This will make it possible to provide services to a broad range of users, regardless of device or operating system.

With regard to e-book and comic services, for which market growth can be expected, to further enhance the content offering of popular works, we will focus on the procurement of works from major publishers for which we have not obtained distribution rights. In addition, we will upgrade and expand the service lineup by providing an audio book service in July 2012 and a photography book service in August.

The number of issued IDs for *mopita*, our own subscriber authentication and payment platform for smartphones, has steadily increased and surpassed the four-million mark as of June 30, 2012. To establish new growth businesses, we will continuously strengthen the platform's functions and also reinforce linkage with the services of other companies.

There is no change to the figures of earnings forecast for the full-year term ended September 30, 2012 announced on April 19, 2012.

[Reference] Earnings forecast for the full-year term ended September 30, 2012
(Announced on April 19, 2012)
 (From October 1, 2011 to September 30, 2012)

Consolidated		
Net sales	¥30,000 million	(Decrease of 7.2% y-o-y)
Operating income	¥1,800 million	(Decrease of 51.4% y-o-y)
Ordinary income	¥1,780 million	(Decrease of 51.8% y-o-y)
Net income	¥500 million	(Decrease of 72.2% y-o-y)

2 Summary Information (Other Information)

(1) Changes in Important Subsidiaries during the Period

None

(2) Application of Specific Accounting Methods for Producing Quarterly Consolidated

None

(3) Changes to Accounting Policies, Changes to Accounting Estimates, Restatements

None

(4) Additional Information

For accounting changes and error corrections carried out after the beginning of the first quarter of this fiscal year, the Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No.24, December 4, 2009) and the Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No.24, December 4, 2009) are applied.

3 Consolidated Financial Statements

(1) Consolidated Balance Sheets

	(Thousands of yen)	
	As of September 30, 2011	As of June 30, 2012
ASSETS		
Current assets		
Cash and deposits	3,108,759	1,760,238
Accounts receivable-trade	7,633,523	6,654,830
Income taxes receivable	—	263,548
Deferred tax assets	614,747	383,672
Other	484,335	649,794
Allowance for doubtful accounts	(370,934)	(336,597)
Total current assets	11,470,431	9,375,486
Noncurrent assets		
Property, plant and equipment	253,938	229,329
Intangible assets		
Software	2,005,421	2,143,227
Goodwill	313,614	187,686
Other	19,743	27,835
Total intangible assets	2,338,779	2,358,750
Investments and other assets		
Investment securities	643,855	670,008
Lease and guarantee deposits	462,769	464,617
Deferred tax assets	656,341	702,597
Other	66,468	60,296
Allowance for doubtful accounts	(10,826)	(10,284)
Total investments and other assets	1,818,608	1,887,235
Total noncurrent assets	4,411,326	4,475,315
Total assets	15,881,758	13,850,802

(Thousands of yen)

	As of September 30, 2011	As of June 30, 2012
LIABILITIES		
Current liabilities		
Account payable-trade	1,541,416	1,204,337
Current portion of long-term loans payable	200,196	149,167
Accounts payable-other	1,555,498	1,685,682
Income taxes payable	1,044,026	34,601
Provison for bonuses	—	145,129
Allowance for coin usage	497,141	470,339
Other	788,028	469,110
Total current liabilities	5,626,307	4,158,367
Noncurrent liabilities		
Long-term loans payable	99,118	—
Provison for retirement benefits	254,522	336,155
Negative goodwill	77,012	70,174
Other	153,861	123,700
Total noncurrent liabilities	584,514	530,030
Total liabilities	6,210,822	4,688,397
NET ASSETS		
Shareholders' equity		
Capital stock	2,562,740	2,562,740
Capital surplus	3,072,920	3,078,260
Retained earning	3,819,710	3,695,955
Treasury stock	—	(397,409)
Total shareholders' equity	9,455,371	8,939,547
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	25,923	(500)
Foreign currency translation adjustment	6,971	2,958
Total valuation and translation adjustments	32,895	2,457
Subscription rights to shares	163,897	199,598
Minority interests	18,771	20,800
Total net assets	9,670,935	9,162,404
Total liabilities and net assets	15,881,758	13,850,802

(2) Consolidated Statements of income

For the nine months of the fiscal year ended September 30, 2011 and 2012

	(Thousands of yen)	
	For the Nine months ended June 30, 2011	For the Nine months ended June 30, 2012
Net sales	24,486,941	21,952,410
Cost of sales	5,898,644	4,360,991
Gross profits	18,588,296	17,591,418
Selling, general and administrative expenses	15,744,763	15,936,432
Operating income	2,843,533	1,654,985
Non-operating income		
Interest income	145	100
Dividends income	4,125	4,105
Amortization of negative goodwill	7,108	6,838
Gain on reversal of subscription rights to shares	2,247	6,148
Other	6,610	6,642
Total non-operating income	20,236	23,835
Non-operating expenses		
Interest expenses	10,611	7,759
Equity in losses of affiliates	8,367	15,371
Recovery expenses	7,644	—
Other	4,010	8,797
Total non-operating expenses	30,633	31,927
Ordinary income	2,833,136	1,646,893
Extraordinary income		
Reversal of allowance for coin usage	355,205	—
Total extraordinary income	355,205	—
Extraordinary loss		
Loss on retirement of noncurrent assets	41,059	105,475
Loss on valuation of investment securities	75,413	—
Goodwill impairment loss	182,400	278,768
Loss on adjustment for change of accounting standard for asset retirement obligations	27,821	—
Settlement package	—	41,095
Total extraordinary losses	326,695	425,338
Income before income taxes	2,861,646	1,221,554
Income taxes-current	1,155,507	626,316
Income taxes-deferred	219,078	192,846
Total income taxes	1,374,586	819,163
Income before minority interests	1,487,059	402,391
Minority interests in income	(19,094)	(8,615)
Net income	1,506,153	411,007

Consolidated statement of comprehensive income

For the nine months of the fiscal year ended September 30, 2011 and 2012

(Thousands of yen)

	For the nine months ended June 30, 2011	For the nine months ended June 30, 2012
Income before minority interests	1,487,059	402,391
Other comprehensive income		
Valuation difference on available-for-sale securities	7,978	(26,424)
Foreign currency translation adjustments	1,362	(5,068)
Share of other comprehensive income of associate accounted for using equity method	(168)	1,055
Total other comprehensive income	9,173	(30,437)
Comprehensive income	1,496,232	371,954
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,515,327	380,569
Comprehensive income attributable to minority interests	(19,094)	(8,615)

(3) Notes concerning Going Concern Assumption

None

(4) Notes on Significant Changes in Shareholders' Equity

None