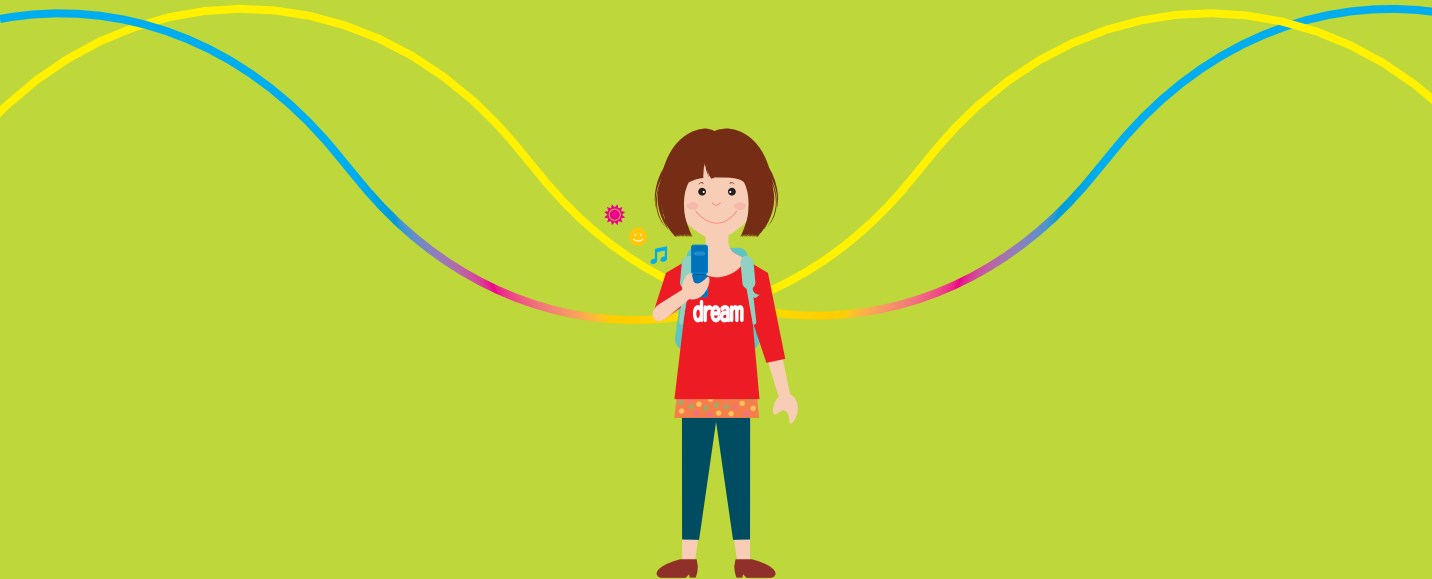




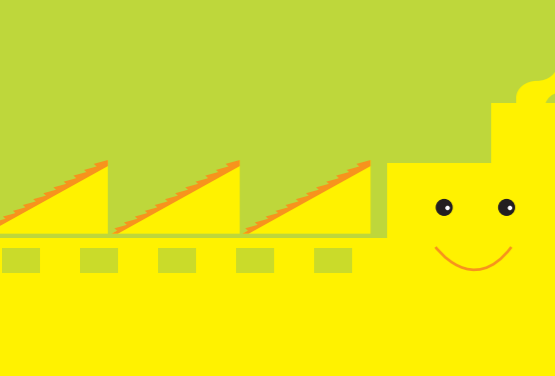
# A dream of our own

..... **Evolving for Success** .....

ANNUAL REPORT 2009    Year ended September 30, 2009



MTI Ltd.



.....Evolving for Success.....

# NO.1

among Japanese mobile content providers  
in terms of paying subscribers

MTI develops and provides mobile content for high-speed multifunction handsets in Japan's highly advanced, and rapidly evolving, mobile phone technology landscape. Through our mobile sites, we supply services ranging from music downloads to lifestyle information and entertainment. Our success is based on highly research-driven marketing, an ability to accurately match content to user expectations, a commitment to production quality, and highly effective promotional activities.

By consistently offering mobile sites that meet the expectations of a wide variety of users, we have been able to achieve continual growth in our paying subscriber base, which reached 8.02 million at the end of September 2009 and is now the biggest in Japan.



## Music Content

MTI operates *music.jp*<sup>®</sup>, Japan's second most popular mobile music distribution site. The content available for download spans full-length song tracks (*Chaku-uta Full*), song ringtones (*Chaku-uta*), ringtone melodies (*Chaku mello*), ringtone voice clips, lyrics and music news. Over 150,000 Japanese tracks and 50,000 foreign tracks, from golden oldies to latest hits, are available through the *Chaku-uta Full* service. Especially popular are tracks offered exclusively through *music.jp*<sup>®</sup> or ahead of CD launches.



## LIFESTYLE

## Lifestyle Information Content

MTI mobile sites provide an extensive line-up of useful lifestyle information. Alongside *Luna-Luna ★ Health for Women*, Japan's leading health management support site for women, we also offer a weather forecast site with hourly updates for 850 locations all over Japan, and traffic information sites that provide instant access to traffic jams predictions and road conditions. There is also a comprehensive navigation site giving quick access to maps and information about local attractions.



## ENTERTAINMENT

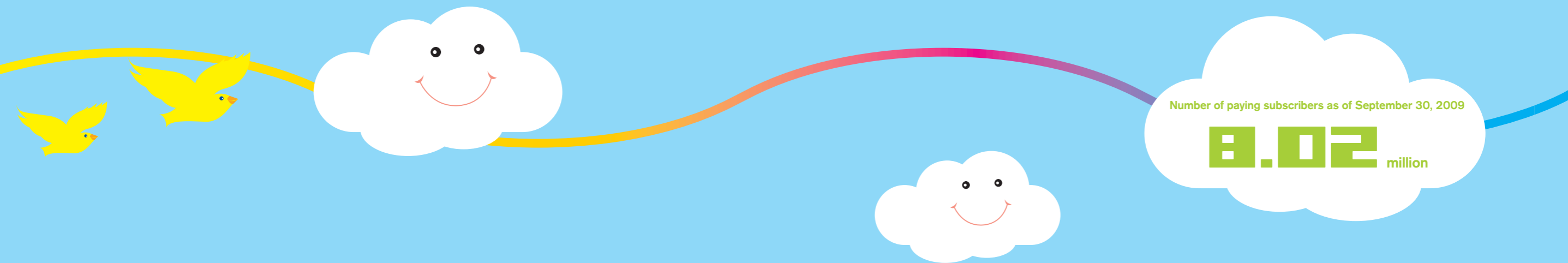
## Entertainment Content

Besides our decorative e-mail site, *Deco Tomo ★ DX*, we also operate sites specializing in decorative e-mails based on *emoji*, Japanese-style text emoticons. This is the most popular category among users in their teens and twenties. Moreover, our wide-ranging entertainment content also includes *kisekae* (dress-up) sites, where users can download digital add-ons to decorate their handset screens, as well as comic downloads and baseball bulletins. We even operate specialized fortune-telling sites offering romantic predictions or Chinese *feng-shui* readings.



## CONTENTS

MTI's Business Model and Characteristics .....	6	Corporate Social Responsibility (CSR) .....	18
Consolidated Financial Highlights.....	8	Board of Directors and Corporate Auditors .....	20
Business Review .....	9	Glossary.....	21
An Interview with the President .....	11	Financial Section .....	22
Corporate Governance.....	16	Corporate and Stock Information.....	59



Number of paying subscribers as of September 30, 2009

**8.02** million

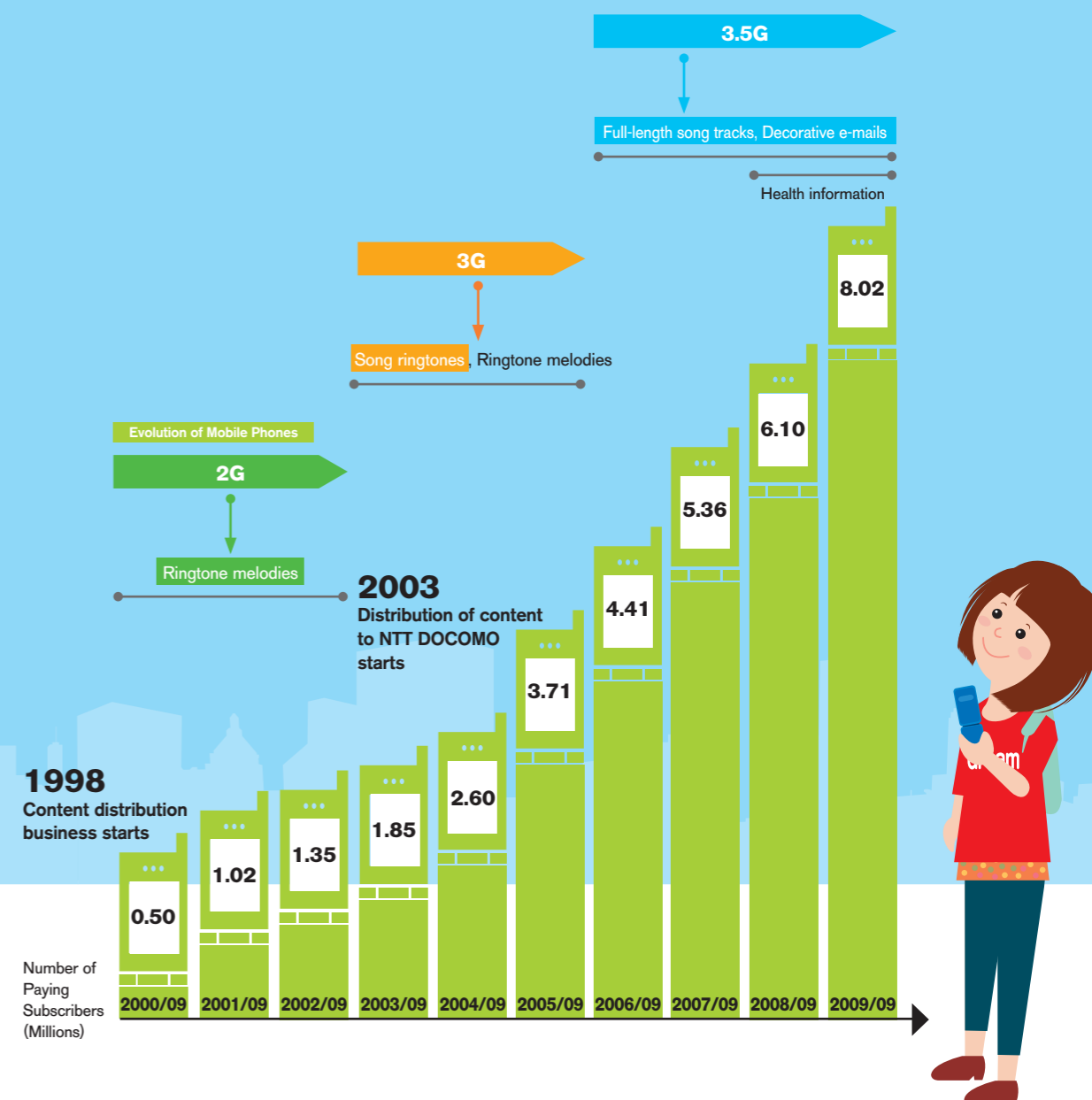
## Expansion

### Growing through Research-driven Marketing and Effective Promotions

Ever since launching mobile content services in 1998, we have kept pace with rapid advances in mobile phone technology, continually updating content to take advantage of new features and adapting to movements in our market. Today, MTI provides a wide variety of mobile content, including ringtone melodies, song ringtones, full-length song tracks and decorative e-mails, that meets the changing needs of its customers.

Our extensive market research, carried out through consumer surveys and group interviews, allows us to analyze user needs in detail. We also repeatedly develop and test hypotheses based on this research.

Promotional activities need to be optimized according to the characteristics of individual content types. We verify the effectiveness of our promotions for each subscriber sign-up route by exhaustively comparing lifetime value and subscriber acquisition costs. By maximizing the benefits of all promotional activities in this way, we have maintained continual growth in our paying subscriber base.





## Vision

# Enhancing Our Three Core Strengths to Become a Mobile Dream Factory

MTI has built extensive expertise in the areas of marketing, quality management and development. We aim to achieve sustained growth by comprehensively enhancing our strengths in these three areas, by providing easy-to-use, high-quality content services that ensure customer retention, and by continually attracting new customers with new and exciting content.

In Japan, mobile phones have become indispensable lifestyle devices, and are now transforming society. Our aim is to contribute to this evolution of society by offering services that customers will want to use throughout their lives, and by evolving into a **Mobile Dream Factory** that is dedicated to, and continually delivers, content services that users once only dreamed of.



As Japan's mobile phone technology landscape continues to evolve, we—and our services—will evolve with it.

We will continue to hone our distinct strengths, and realize *our* dream: To become a

## Mobile Dream Factory

that continuously delivers excitement for customers of today and tomorrow.

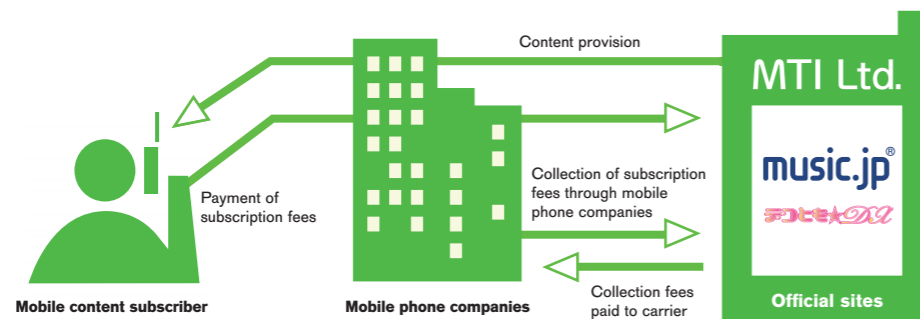


## Business Model

### Content Distribution Business

MTI operates official sites\* that generate income in the form of monthly subscription charges paid by users at various rates: ¥100, ¥300 and ¥500. Monthly charges are levied through mobile phone companies and paid to MTI after the

deduction of a collection commission equivalent to about 10% of the monthly charges. MTI pays royalties to record companies and publishers according to the number of music tracks and other works downloaded by users.



\* Official sites: These are mobile phone-format websites that have been inspected and approved by carriers, such as NTT DOCOMO, au and Softbank, and are featured on their portal sites. Mobile content service providers, such as MTI, earn income by charging for information supplied to these sites.

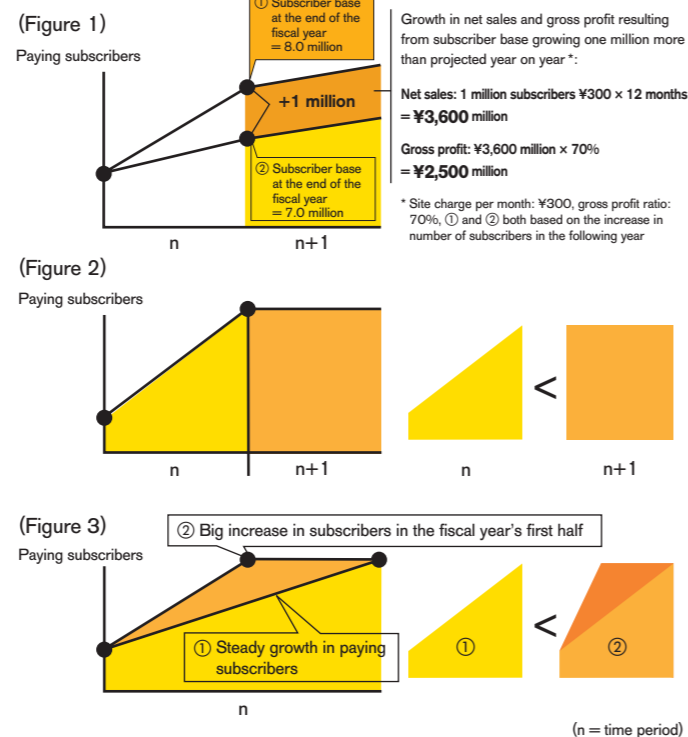
### Characteristics of Our Content Distribution Business

Our content distribution business is a stock-type business based on monthly charges. Increases in the number of paying subscribers in each fiscal year make a substantial contribution to net sales and gross profit in the following fiscal year.

For example, if the number of paying subscribers at the end of a fiscal year is one million greater than projected, net sales will increase by ¥3,600 million and gross profit by ¥2,500 million in the following fiscal year (Figure 1).

Even if there is no increase in the number of paying subscribers in the following year, revenues will still be higher because of contribution from subscribers added in the previous fiscal year (Figure 2).

As shown in the diagram, even if the number of paying subscribers at the end of the fiscal year is unchanged, revenues can still be increased by expanding the user base as much as possible at the start of the fiscal year (Figure 3).



## Our Characteristics

### Large-scale Promotional Activities in the Fiscal Year's First Half

December and March, which both fall in the first half of MTI's fiscal year, are the best times to increase the paying subscriber base. There are three reasons for this.

First, these are the times when mobile phone manufacturers launch new models. Many people start to use new content upon replacing their mobile phones.

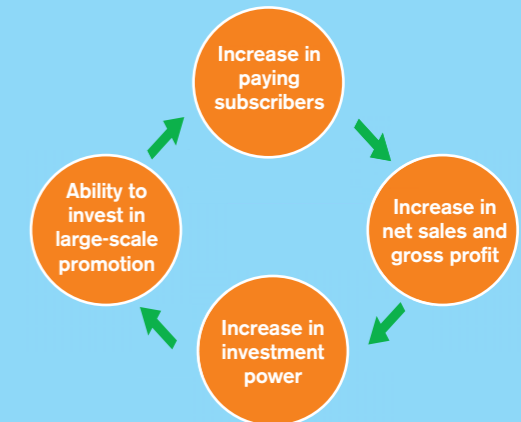
Second, popular artists often launch new songs during these months, which attracts more paying subscribers to mobile music distribution sites. As a result, sales of both full-length song tracks and song ringtones can be expected to increase.

Third, the use of decorative e-mails to send Christmas and New Year's greetings has become an established part of Japanese culture, especially among the younger generations.

These factors are reflected in our strategy of investing aggressively in advertising during the first half of the year, when the growth in our paying subscriber base tends to be larger. If we can expand our subscriber base in the first half

of the fiscal year, there will be a proportionate increase in our revenues in the latter half. The result is a virtuous circle, since the resulting revenue growth gives us a greater capacity to implement promotional activities in the second half of the fiscal year and in subsequent years.

### VIRTUOUS CYCLE OF SUBSCRIBER GROWTH



### Effective Promotional Activities

We assess the cost-benefits of promotional expenditure by comparing the lifetime value per subscriber, in terms of cumulative gross income, with the acquisition cost per subscriber for each content category and sign-up route. Through this analysis, we focus on content categories

that offer the best cost-benefits performance. We carefully analyze the fluctuations in the cost-benefits for each content category from day to day, which enables us to optimize our promotional activities.



## Consolidated Financial Highlights

MTI Ltd. and Consolidated Subsidiaries  
Years ended September 30

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2005	2006	2007	2008	2009	2009
Net sales	14,757	17,443	18,520	21,615	25,732	285,921
Cost of sales .....	6,625	6,090	5,874	6,286	7,920	88,005
Selling, general and administrative expenses.....	7,918	10,450	11,523	13,602	15,599	173,325
Operating income .....	212	902	1,123	1,726	2,213	24,590
Income before income taxes and minority interests....	84	1,037	1,522	1,371	1,870	20,782
Net income (loss).....	(125)	884	1,053	563	1,669	18,550
Total assets	9,379	9,930	9,459	10,758	12,557	139,526
Total net assets (Note 2) .....	5,675	6,313	5,529	5,385	6,807	75,634
Net income (loss) per share						
: Primary (Yen, U.S. dollars) .....	(1,763.31)	10,986.63	14,490.62	4,086.52	12,446.91	138.30
: Fully diluted (Note 3) (Yen, U.S. dollars).....	—	10,789.08	14,401.79	4,048.63	12,346.21	137.18
Cash dividends per share (Yen, U.S. dollars) .....	340	1,000	1,500	1,000	2,000	22.22
Total net assets per share (Note 4) (Yen, U.S. dollars) ....	70,507.03	78,729.89	79,021.25	39,567.06	50,227.79	558.09
Equity ratio (%) .....	60.5	63.6	58.5	49.9	53.7	53.7
Return on equity (%) (Note 5) .....	(2.7)	14.8	17.8	10.3	27.6	27.6
Return on assets (%) (Note 5) .....	1.3	8.7	10.6	16.6	18.7	18.7
Number of employees.....	223	302	354	449	489	489

Notes 1: Yen figures have been translated into U.S. dollars at the rate of ¥90.0 to US\$1, solely for the convenience of readers.

2: The amount of total net assets at September 30, 2005 represents the value of total shareholders' equity.

3: Fully diluted net income per share at September 30, 2005 is not mentioned due to the net loss of the year.

4: The amount of total net assets per share at September 30, 2005 represents the value of total shareholders' equity per share.

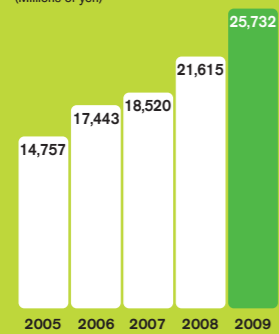
5: ROE = Net income / [(equity\* at beginning of the period + equity\* at the end of the period) / 2]

ROA = Ordinary income / [(total assets at beginning of the period + total assets at the end of the period) / 2]

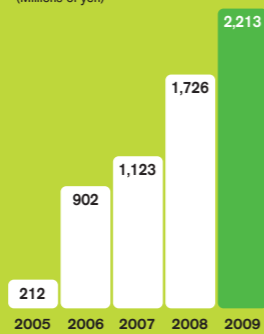
(\*) Equity = Total net assets - stock acquisition rights - minority interests

6: The Company carried out a two-for-one stock split on April 1, 2008. Therefore, net income (loss) per share (primary and fully diluted), cash dividends per share and total net assets per share for the year prior to fiscal 2007 are calculated based on the pre-split number of shares.

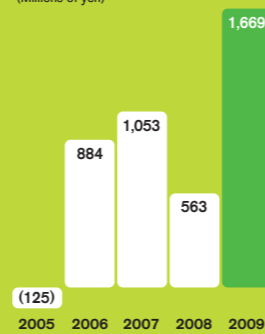
■ Net Sales  
(Millions of yen)



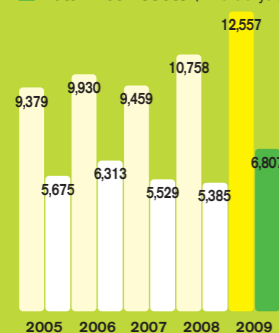
■ Operating Income  
(Millions of yen)



■ Net Income (Loss)  
(Millions of yen)



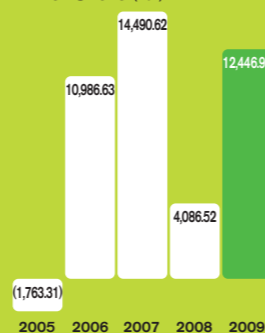
■ Total Assets /  
■ Total Net Assets (Millions of yen)



■ ROE / ■ ROA  
(%)



■ Net Income (Loss)  
Per Share (Yen)



## Business Review

Fiscal Year Ended September 30, 2009

## New Record Highs for Net Sales, Operating Income and Net Income

## RESULT OF OPERATIONS

In the fiscal year ended September 30, 2009, we worked to expand our paying subscriber base through aggressive, dynamic promotional activities targeted toward areas offering high cost-effectiveness. These efforts helped to lift the number of paying subscribers for our health information site *Luna-Luna ★ Health for Women* above the one million level. There was also strong growth in the sales of full-length song tracks (*Chaku-uta Full*) and decorative e-mails. Our total paying subscriber base showed the biggest one-year growth in the Company's history, with a 1.92 million increase that lifted the total to 8.02 million at the end of September 2009.

These achievements were reflected in record consolidated results, including net sales of ¥25,732 million, operating income of ¥2,213 million and net income of ¥1,669 million.

### Content Distribution Business



Contribution to  
Total Net Sales

98.2%

## Paying Subscriber Base Expands to 8.02 Million

There was a healthy increase in the number of paying subscribers for musical content. Contributing factors included the acquisition of excellent content, especially tracks by popular artists and theme tunes from television dramas, coupled with effective promotional activities through TV commercials and mobile advertising.

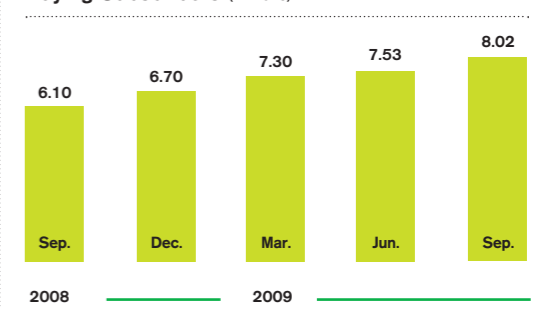
In the area of lifestyle information content, the number of paying subscribers for *Luna-Luna ★ Health for Women* exceeded one million. We attribute this success to accurate analysis of user needs and promotional activities centering on TV commercials.

The number of paying subscribers for other sites, including our weather information site, continued to grow steadily. We also achieved significant growth in the paying subscriber base for our decorative e-mail service by running aggressive promotional activities during the year-end and New Year period, which is the peak demand season. The number of paying subscribers in this category continued to expand steadily in subsequent months, in part

because of growth in the use of a sister site offering *emoji*, Japanese-style text emoticons.

Growth in these areas helped to boost the total paying subscriber base, which increased by 1.92 million to 8.02 million as of September 30, 2009, the biggest one-year increase in the Company's history.

Paying Subscribers (Millions)



# Evolving for Success

Aiming to capture a greater share of the expanding mobile content market



President and Chief Executive Officer  
**Toshihiro Maeta**

## Mobile Advertising Business

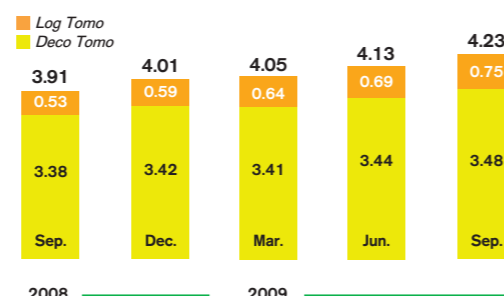


Contribution to  
Total Net Sales  
**2.2%**

## Revitalizing the Subscriber Base

Our goal for the mobile advertising business was to revitalize the subscriber base for the *Log Tomo* and *Deco Tomo* sites, while controlling costs to minimize losses resulting from forward investment in promotional activities. To this end, we implemented such measures as offering various user-participation events and new services within these sites. As a result, the subscriber base for these sites increased by 320,000 to 4.23 million as of September 30, 2009.

Number of Registered Subscribers (Millions)



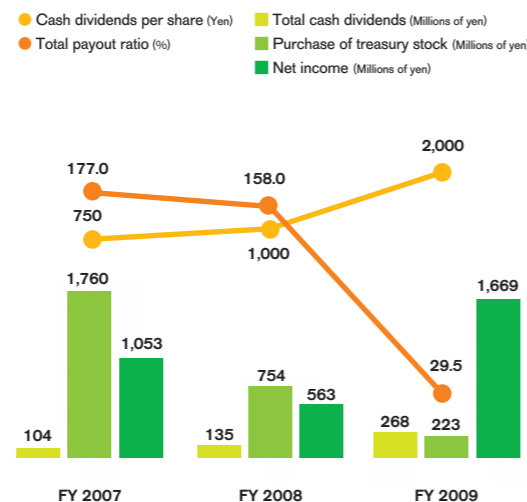
## Returns to Shareholders, Dividends

### Final Dividend Increased by ¥1,000 to ¥2,000 per Share

MTI's financial priorities are to improve aggregate stock value through the creation and expansion of enterprise value, and at the same time continuously distribute earnings to shareholders.

In the fiscal year ended September 30, 2009, we bought back shares worth a total of ¥223 million. All of these shares were canceled in May 2009. We also expanded shareholder returns by increasing the dividend by ¥1,000 to ¥2,000 per share. With these measures, the total payout ratio, including dividends and share repurchasing, stood at 29.5% of consolidated net income for the year.

We are determined to continue to expand our enterprise value through continuous net sales and income growth, so as to bring our shareholders further increases in aggregate value and a steadily rising dividend.



\* Two-for-one stock split on April 1, 2008. For easy comparison, the dividends per share for fiscal year 2007 have been adjusted to reflect the split.

## Q.1

**In the year ended September 30, 2009, the Company recorded its biggest ever net increase in paying subscribers. What were the reasons for this success?**

The net increase in paying subscribers is the difference between the number of new subscriptions and that of cancelled ones. The new record resulted mainly from substantial growth in the number of new subscribers, which was driven by two key factors.

First, in the past, increases in the paying subscriber base were driven mainly by music content, but this year we also saw strong contributions from health information and decorative e-mails.

Second, in diversifying the subscription routes, we have been thoroughly analyzing the cost-benefits for each of the routes used by new subscribers for each content category. This effort has greatly enhanced the effectiveness of our promotional activities.

In the health information category, for *Luna-Luna ★Health for Women (Luna-Luna)*, we thoroughly analyzed the needs of female subscribers, who are the main users of these services, and implemented changes in a timely manner to better meet these needs. This boosted the number of paying subscribers to more than one million in August 2009, an increase propelled by effective promotional activities centered on TV commercials.

We were also able to increase the number of paying subscribers in the decorative e-mail category through intensive promotional activities over the year-end and New Year period, the peak demand season. Increased use of our *emoji* pictographic sites also helped to maintain subscriber growth overall throughout the rest of the year under review.

## How do you differentiate your promotional methods?

We focus on securing extremely cost-effective subscription routes that have so far not been tapped by our competitors. One example of this is our use of TV commercials for *Luna-Luna*. We attribute the dramatic expansion of the site's paying subscriber base not only to efforts to differentiate our sites through improved service functions, but also to the fact that we were the first to use TV commercials as a new route for attracting subscribers.

We concluded that there was a limit to the number of new subscribers that we could attract through mobile advertising and magazine promotions, and began to look for other promotional methods. After running small-scale trials of various methods and thoroughly analyzing the cost-benefits of each, we saw that TV commercials, which we had not previously used for this site, offered significant benefits in relation to costs. We then launched a major promotional campaign based on this new approach.

One reason for this success was our ability to conduct sustained and detailed analyses. Another was the fact that we had the resources to implement large-scale promotions based on TV commercials. By differentiating our promotional methods in this way, we were able to build an overwhelming market position for *Luna-Luna*.



TV commercial for *Luna-Luna*

## Q.2

**Do you see the growing popularity of smartphones in Japan as a threat?**

While the number of smartphone users in Japan is definitely increasing, we do not see this as a major threat at present. This view is based on our experience of the evolutionary trends in major demand growth for content, which occur in response to shifts in the generation of mobile phone technology. For example, the spread of 3G phones was accompanied by growth in demand for song ringtones, while demand for full-length song tracks began to expand in step with the shift to 3.5G handsets. In view of this, and based on the number of smartphones in use at present and in the immediate future, we believe that a sudden and sharp increase in demand for smartphones is unlikely at this stage.

Even when the user base for smartphones substantially expands, we anticipate that the development of a market for suitable content would take a significant period of time. Therefore, our plan is to monitor the user base trend of smartphones and choose the best time to move into this market segment.

In the past, we have successfully and timely implemented strategies to enter new content categories in response to evolving mobile phone technologies. Given this experience, and given our increasing capacity to invest, we believe that we will be able to adapt as successfully as we have in the past to any shift in content demand brought by increased use of smartphones.

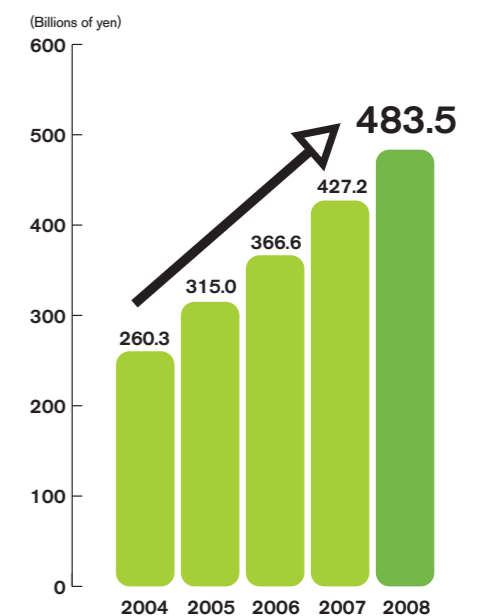
## Q.3

**What is your view of the outlook for the mobile content market?**

In the mobile content market, the shift to 3.5G technology has brought continuing growth in demand for full-length song tracks. There has also been a dramatic increase in demand in new content categories, such as digital books and decorative e-mails. The market continued to expand in 2008 with a 13% year-on-year increase to ¥483.5 billion.

We anticipate that continuing expansion of the age range of mobile content users will diversify content usage patterns to include not only entertainment but also more practical and lifestyle-related applications. On this basis, we expect continuing growth in the mobile content market in the foreseeable future.

### Mobile Content Market



Source: Mobile Content Forum (MCF) survey

### How has the age profile of mobile content users changed?

Just over 10 years have passed since Japan saw the launch of *i-mode*\* services in 1999. The main users of mobile content at that time were those in the younger generations. Today, a decade later, these people are still using mobile content, although lifestyle changes have gradually changed the circumstances in which they access content, as well as their content preferences. Given that young people are still the main users today, it is likely that younger generations will continue to enter the content market as new users. So the age profile is expected to expand further because of the continuing use of content by existing users, in addition to an influx of new users.

The situations in which people use mobile content are also expected to expand as mobile handsets evolve. For this reason, too, we anticipate continuing growth in the mobile content market.

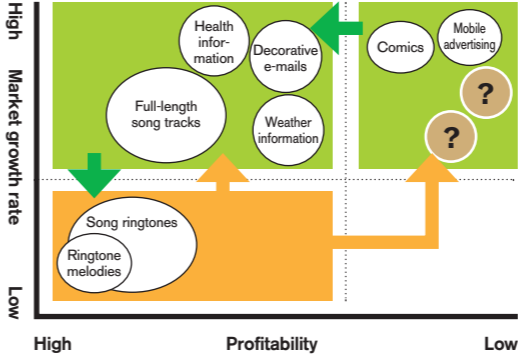
\* *i-mode*: A mobile internet service provided by Japan's NTT DOCOMO. Besides e-mail and internet browsing, *i-mode* users can access a wide variety of content and services from their handsets.

### Q.4 What are MTI's goals in this environment?

Our share of the mobile content market, which is expected to remain on an expansionary trend in the foreseeable future, is currently around 5%. On this basis, we believe that there is considerable room for further growth within Japan. Our strategy is to expand our paying subscriber base in areas in which the market has already reached a significant size but still offers potential for further market growth, as well as areas in which the market is extremely large.

In areas in which the market is growing, such as decorative e-mails and comics, we will work to expand with the market. Although the musical content category, which includes song ringtones and full-length song tracks, is entering its mature phase, it is still the biggest segment. Our goal in this area will be to increase our market share.

We are already number one in the health information segment. Our goal will be to consolidate this position by using our market leadership.



- ① Investment in selected potential growth areas that can provide reliable income streams
- ② Evolution into profitable growth areas
- ③ Discovery of promising new areas

We aim to increase our share of the Japanese market.

Our core source of income at present is musical content. Our strategy is to build core income flows for the future by using some of this stable income for investment in areas with high growth potential, such as health information and decorative e-mails.

We will continually develop high-growth segments capable of generating reliable income, while also continually working to discover and invest in new growth areas. By repeating this cycle, we will further expand our share of the Japanese market.

### Q.5 Finally, what initiatives do you plan to implement to achieve these goals?

We place high value on our marketing, quality management and development capabilities. Continuing improvement in all of these areas will remain a priority.

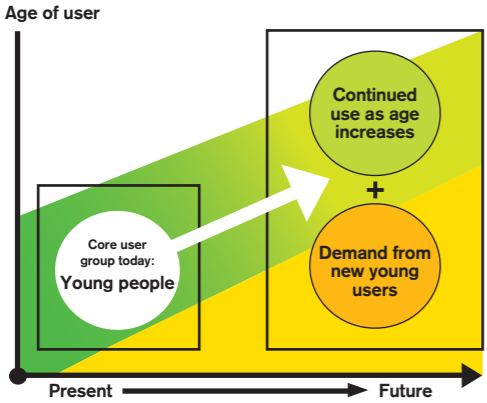
Our greatest strength is our marketing expertise. We constantly listen to our customers and monitor trends in customer needs. By repeatedly creating and verifying hypotheses, we are able to develop effective promotional methods and create sites that achieve high levels of customer satisfaction.

Customer satisfaction also depends on quality. We will achieve the high quality standards required through a continuing Plan-Do-Check-Action cycle and improvement activities.

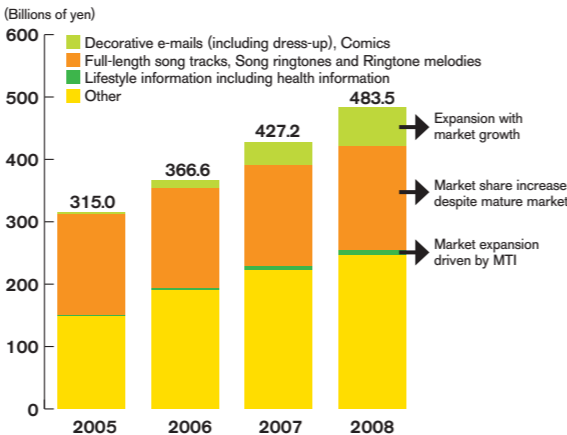
We also aim to further build up our development capabilities by continually improving the skill levels of our IT engineers, and by strengthening our development process management to support the creation of the rich, highly complex mobile content needed to keep pace with the continuing evolution of mobile phones.

The pace of change in the environment surrounding the mobile content market is extremely dynamic. I believe that we can continue to adapt successfully to this change through continuing efforts to improve our capabilities in these three core areas.

#### Expanding User Age Profile



#### Market Size by Mobile Content Category



Source: Mobile Content Forum (MCF) survey

(Billions of yen)	2005	2006	2007	2008
Ringtone melodies and related items	104.8	84.3	55.9	47.3
Song ringtones and related items	46.3	52.2	56.8	48.3
Full-length song tracks	9.9	23.7	50.6	70.7
Decorative e-mails	1.4	5.5	11.6	17.1
Dress-up services	—	0.3	2.3	6.4
E-books	1.6	6.9	22.1	39.5
Lifestyle information (dictionary, learning, health, etc.)	2.7	4.5	5.4	7.7
Weather and news	5.1	6.3	7.3	7.8
Traffic information	7.4	12.5	16.4	20.6
Fortune-telling	12.3	15.8	18.2	20.0
Call-back tones	1.3	2.9	8.7	11.0
Sales of avatars and other items for SNS, etc.	—	0.5	6.0	15.7
Mobile games	58.9	74.8	84.8	86.9
Other mobile content markets	63.3	76.4	81.1	84.5
<b>Total</b>	<b>315.0</b>	<b>366.6</b>	<b>427.2</b>	<b>483.5</b>

## We are creating a highly transparent management structure and systems to support timely, appropriate decision-making.

### Basic Approach

MTI's key management priorities include the establishment of a sound and highly transparent management structure, and the creation of systems to support timely, appropriate decision-making in response to a changing business environment. One of the measures introduced with the aim of achieving these goals was the adoption of a one-year term of office for directors. This has added a sense of urgency to the management environment, since directors are required to earn the confidence of shareholders every year. We are also working to strengthen and consolidate our compliance systems.

In accordance with our IR policy, we provide timely and accurate disclosure of information including financial results and other key management data. We also emphasize two-way communication with all stakeholders to enhance management transparency and build relationships of trust with market participants.

### Implementation of Corporate Governance Policies

The tasks of the Board of Directors, which consists of eight internal directors and one external director, are to make important management decisions and supervise directors in the performance of their duties. In addition to its regular monthly meetings, the Board also convenes extraordinary meetings as required.

There are four corporate auditors, including one standing auditor. All four are currently external auditors. Their task is to strengthen the supervisory functions of management through activities including attendance at Board meetings and other important management meetings.

By basing its executive organization on an operating officer system, MTI has created a structure that supports clear chains of accountability and timely decision-making. The Management Committee, consisting mainly of directors and operating officers,

meets two or three times a month to discuss important operational matters. Decisions by the President and CEO are guided by these deliberations.

We carefully monitor the business performance of subsidiaries, and the presidents of key subsidiaries are regularly invited to attend meetings of the Management Committee. We have further strengthened our checks and balances by centralizing control functions for group companies under the parent company, MTI Ltd.

MTI has appointed Ernst & Young ShinNihon LLC as its independent auditor. The independent auditor helps to ensure a high standard of transparency and accuracy in the Company's accounts by conducting regular audits and providing advice and verification on accounting matters. We have also retained outside experts on taxation and legal matters to provide advice as required.

reports on their activities to the President, the Board of Directors and the Board of Corporate Auditors, as well as to the organizational units covered by audits.

Compliance-related initiatives are coordinated by the Compliance Committee in cooperation with organizational units throughout MTI. We have also established an internal reporting system through which employees can provide direct information about any concerns, such as questions over the legality of activities. Any officer or employee of the Company who becomes aware of activities or behavior that may contravene laws or regulations is required to report the matter to the Compliance Committee and Board of Directors, either through the reporting line or via the internal reporting system.

### Risk Management Systems

Each of the Company's organizational units and subsidiaries analyze risks that could affect business operations, and devise countermeasures within the limits of their authority. Matters of particular importance that exceed the authority of individual organizational units are discussed by the Management Committee or Board of Directors. All decisions are subject to continual monitoring.

The Internal Audit Department audits risk management and risk countermeasures relating to business operations, while the Internal Control Department carries out similar tasks relating to risks affecting the reliability of financial reporting. Both departments report their findings to the President, the Board of Directors and the Board of Corporate Auditors. Other risk management activities and countermeasures at the corporate level are audited by the Compliance Committee, which reports its findings to the Board of Directors.

In April 2009, we formulated rules covering our risk management structure to provide a framework for the assessment of risk factors and the management of those risks across all of MTI. We are continually improving and strengthening the systems used to provide comprehensive risk management throughout MTI.

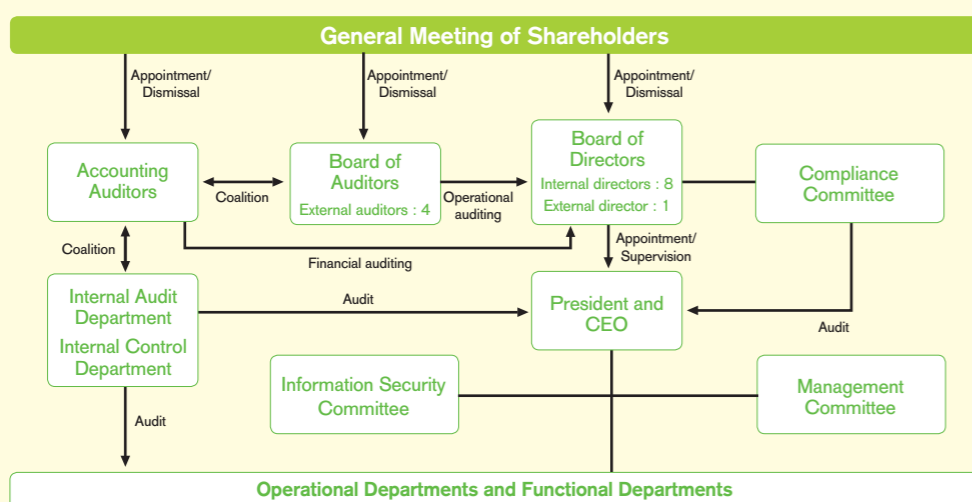
### Basic Approach Regarding Internal Control Systems

Our approach to corporate governance is based on fundamental policies concerning the performance of business operations. These policies require us to comply with all regulatory requirements, to deal with all stakeholders in good faith, to disclose information appropriately, to maintain sound and highly transparent management systems, and to contribute to society by creating enterprise value through our business activities. They are also the framework within which we have developed our internal control systems.

### Compliance

Compliance with laws and regulations is one of MTI's fundamental policies. We have formulated compliance rules and created a Compliance Committee, and continually implement compliance-related initiatives. The Internal Audit Department, which reports directly to the President, conducts a variety of audit programs designed primarily to assess the effectiveness and efficiency of operations. The Internal Control Department similarly assesses the effectiveness of the internal control systems used to ensure the reliability of financial reporting. The Internal Audit Department and the Internal Control Department both submit

### Corporate Governance Structure



MTI is helping to build a better society through wide-ranging social contribution activities. These include activities based on its mobile sites, as well as initiatives by individual employees.

## Initiatives through Mobile Sites

### Mobile Site Safety Measures—Ensuring Safety on the Log Tomo SNS Site

We have taken various steps to create a safe online environment for all users of our blogging and SNS site, *Log Tomo*. Mobile phone users under the age of 18 are not allowed to register with *Log Tomo*, and the site is patrolled and monitored 24 hours a day, 365 days a year. Posts or messages that are inappropriate or violate copyrights are removed, and the membership of users involved in such violations is revoked. We also take steps to prevent crime by reporting any messages containing threats of suicide or criminal behavior to the police.

### Disaster Relief Donations

Part of the revenues from our weather information site is donated through humanitarian organizations, and used to assist people affected by natural disasters. In 2009, we provided donations through Japan Red Cross to assist victims of the following disasters:

#### October 2009:

Flood in India; typhoon in the Philippines; typhoon in Vietnam; earthquake and subsequent tsunami in Samoa; earthquake in off-shore Sumatra

#### September 2009:

Typhoon Morakot in Taiwan

#### August 2009:

Typhoon No. 9 in Hyogo and Okayama Prefectures; heavy rain in Chugoku and Northern Kyushu in July 2009

### Charitable Downloads

In November 2009, our *music.jp*® site participated in the “Happy Birthday Download for Children” project, a fund-raising campaign launched by the Japan Committee for UNICEF to save the lives of babies and small children worldwide. Users could download *Chaku-uta* (song ringtones) featuring the Happy Birthday song performed by famous artists. Each download resulted in a donation of ¥105 to the Japan Committee for UNICEF. The donations were used to fund child protection activities.

### Support for Environmental Events

*music.jp*® was one of the sponsors of Earth Day Tokyo 2009, which was held on April 18 and 19, 2009 to encourage people to think about the global environment. We assisted with the operation of a free official site for the event. We hope that people who were previously not concerned about global environmental issues were encouraged to think about these problems through their experience of this site and the programs provided through it.

## Other Social Contribution Activities

### Recovery of PET Bottle Caps

We collect PET bottle caps and use the proceeds from their sale to provide vaccines for children around the world. Through this activity, we are also contributing to the “Ecocap” campaign, an initiative to reduce CO<sub>2</sub> emissions through recycling of bottle caps. Caps collected within the MTI organization are sold to a recycling company through Ecocap Movement, a non-profit organization, which donates the proceeds to the Japan Committee for Vaccines for the World's Children (JCV). In 2009, we collected 46,680 caps. This was sufficient for 58.4 vaccine doses and a CO<sub>2</sub> reduction of approximately 367.61 kg.

### Use of “Vaccine Paper” in Shareholder Reports and Company Envelopes

Vaccine Paper is a campaign run by the Japan Committee for Vaccines for the World's Children (JCV), in which a printing company donates ¥2 per kilogram of paper used to the JCV. We use this paper to print our company envelopes and the MTI REPORT, through which we inform shareholders about our business activities. JCV uses the funds raised to provide vaccines for children in Myanmar, Laos and Bhutan.

## Board of Directors and Corporate Auditors

(As of December 23, 2009)



6 4 2 1 3 5 7



12 10 8 9 11 13

1. President and Chief Executive Officer	<b>Toshihiro Maeta</b>	8. Director	<b>Ryuichi Sasaki</b>
2. Executive Vice President	<b>Hiroshi Izumi</b>	9. Director	<b>Masaya Onagi</b>
3. Senior Managing Director	<b>Tsuguo Takahashi</b>	10. Statutory Auditor (Standing Auditor)	<b>Tsutomu Minoura</b>
4. Managing Director	<b>Katsunori Osawa</b>	11. Statutory Auditor	<b>Kazuhiro Wada</b>
5. Managing Director	<b>Toru Narita</b>	12. Statutory Auditor	<b>Yoshinobu Nakamura</b>
6. Director	<b>Tadahisa Saito</b>	13. Statutory Auditor	<b>Kazuhiko Sakishima</b>
7. Director	<b>Yoshihiro Shimizu</b>		

## Glossary

### MUSIC DISTRIBUTION

#### Full-length song tracks (*Chaku-uta Full*)

This service offers entire songs from CD releases to users for download. The songs can be enjoyed as music player tracks or used as ringtones.

#### Song ringtones (*Chaku-uta*)

This service offers short clips (15–45 seconds) of songs for use as mobile phone ringtones and alarms.

#### Ringtone melodies (*Chaku-mello*)

Through this service, users can download electronic melodies that play on a mobile phone when a call is received. Many of the melodies are polyphonic.

### DECORATIVE E-MAILS

This generic term refers to e-mails with decorative features, such as illustrations and animated letters, inserted into the body text. Decorative e-mails are used in an increasingly diverse range of situations across an expanding age spectrum, and the range of materials available has grown accordingly.



#### Templates

This is a set of background illustrations and lettering effects based on predetermined theme. The user can quickly create and send a decorative e-mail by entering text in the message area.



#### Seal

This feature allows decorative seals, consisting of illustrations, messages and other content designed for various purposes, to be inserted into e-mails. A variety of seals can be used to create uniquely personalized and expressive e-mails.



#### Emoji, Mini-deco

An *emoji* is a decorative item that is the same size as the characters in the e-mail. A *mini-deco* is a decorative item whose width spans several characters. Because of their ease of use, these items are especially popular with users in their teens and twenties.

### DRESS-UP (*Kisekae*)



With this service, users can use downloaded character images and other items to create integrated visual set-ups for various screens on their mobile phones, including standby, call and alarm screens.



## Management's Discussion and Analysis (Consolidated Basis)

MTI Ltd. and Consolidated Subsidiaries  
For the fiscal year ended September 30, 2009

### Overview

In the mobile telecommunications industry, the core business area of the Company, the number of 3G or later-generation mobile phone subscriptions reached 104.61 million as of September 30, 2009. This accounts for 95.4% of all mobile phone subscriptions, according to a survey conducted by the Telecommunications Carriers Association. Above all, there has been a notable shift to higher-performance 3.5G mobile phone handsets.

With flat-rate packet services propelling rapid development of multifunction handsets that enable distribution of richer content, the demand for mobile content, including lifestyle information content, is expected to continue to expand in the future.

In this environment, the Company aggressively rolled out promotional activities to expand the paying subscriber base, mainly for content with growth potential, such as health-related information and full-length song tracks. As a result, the number of paying subscribers in the content distribution business as of September 30, 2009, increased to 8.02 million, an increase of 1.92 million from the previous fiscal year-end.

### Net Sales, Gross Profit and Operating Income

Consolidated net sales grew by 19.1% from the previous fiscal year to ¥25,732 million, marking the fifth consecutive year of record-high performance. An increase in paying subscribers in the content distribution business contributed significantly to this result.

Gross profit also rose by 16.2% year on year to ¥17,812 million. Although there was a drop in the gross

profit ratio by 1.7 percentage points to 69.2%, its downward effect was more than offset by an increase in revenue generated by the expansion in the paying subscriber base.

Operating income soared by 28.2% from the previous fiscal year to ¥2,213 million, raising the ratio of operating income to net sales by 0.6 percentage points to 8.6%. Increases in selling, general and administrative expenses, especially in advertising and public relations, personnel expenses and commission payments, were covered by the sizable rise in gross profit, leading to record-high operating income for the fourth consecutive year.

### Segment Information

#### Content distribution business

In music content distribution, the Company focused its efforts on acquiring popular music tracks and developing various promotions. The number of paying subscribers of full-length song tracks expanded steadily. We also successfully increased the number of paying subscribers of song ringtone services, for which the market has matured. In addition, we succeeded in maintaining the paying subscriber base for ringtone melody services, for which the market is shrinking.

Proactive promotional activities, including TV commercials, also contributed to wider awareness of the health-related information website, generating a substantial increase in subscribers. As a result, this website grew into the first mobile website providing non-music content with a paying subscriber base of over one million in August 2009.

In decorative e-mail services, the Company

successfully increased the number of paying subscribers in this content category as a whole on the strength of aggressive and effective promotional activities over the New Year's peak-demand holiday season, together with the launch of a pictographic site, *Deco Tomo ★ Emoji DX*, in December 2008.

As a result of the above, the number of paying subscribers as of September 30, 2009 soared to 8.02 million, an increase of 1.92 million from the previous fiscal year-end. Net sales of the segment rose by 20.2% year on year to ¥25,264 million. Operating income of the segment, however, decreased by 11.7% to ¥2,720 million, reflecting proactive investments in promotional activities.

#### Mobile advertising business

In the mobile advertising business, the Company worked to stimulate increased use of services by registered members, while minimizing deficits resulting from advance investments. Although the number of registered members as of September 30, 2009 increased by 320,000 from the previous fiscal year-end to 4.23 million, net sales of the segment dropped by 17.4% to ¥561 million. Operating loss of the segment, on the other hand, improved by ¥829 million from the previous fiscal year to ¥428 million.

### Extraordinary Gains and Losses

Extraordinary gains for the fiscal year ended September 30, 2009 decreased by ¥6 million from the previous fiscal year to ¥26 million, mainly due to a reversal of allowance for doubtful accounts.

Extraordinary losses amounted to ¥333 million, a slight decrease of ¥3 million from the previous fiscal

year. Major items include a ¥100 million loss on retirement of software and other non-current assets, ¥89 million in retirement benefit expenses incurred from a change in the accounting principles for retirement benefit reserves, and ¥109 million posted as expenses for content-related information.

### Net Income

While extraordinary losses were posted as per the above, income before income taxes surged by 36.4% year on year to ¥1,870 million, reflecting a significant rise in operating income. Furthermore, income taxes decreased by ¥641 million following the completion of the merger with consolidated subsidiary comic.jp., inc. on February 1, 2009. As a result, net income soared by 196.4% year on year to ¥1,669 million, raising the net income ratio and ROE by 3.9 percentage points and 17.3 percentage points to 6.5% and 27.6%, respectively. Fully diluted net income per share amounted to ¥12,346.21.

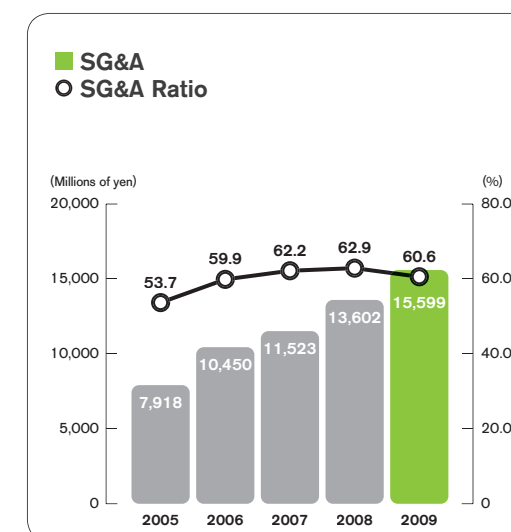
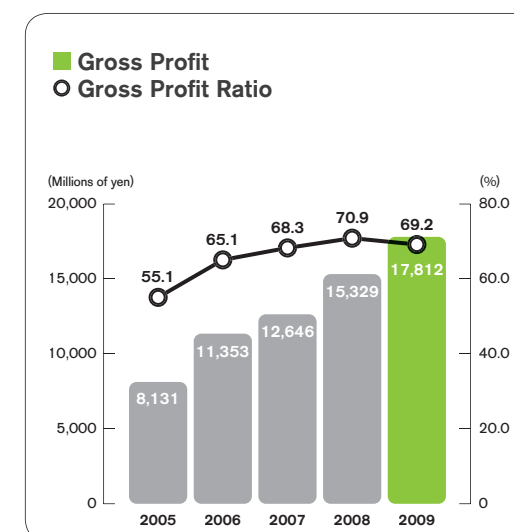
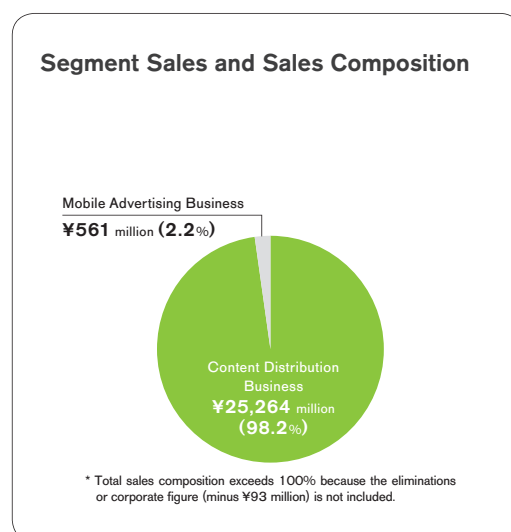
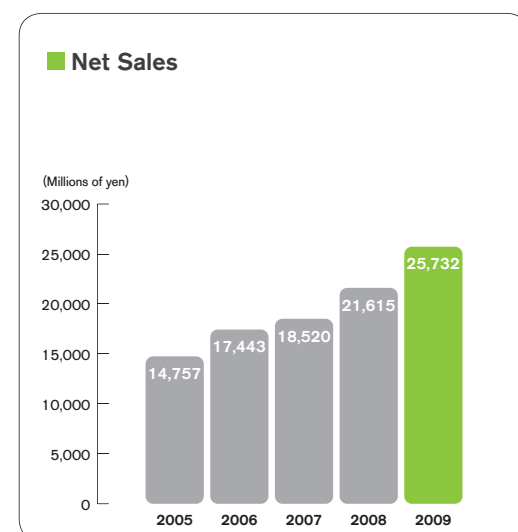
### Assets, Liabilities and Net Assets

#### Assets

Total assets as of September 30, 2009 stood at ¥12,557 million, an increase of ¥1,798 million from the previous fiscal year-end.

#### Current assets

Current assets increased by ¥1,614 million to ¥9,359 million, mainly due to an increase in accounts receivable-trade of ¥1,292 million resulting from the net sales increase.



Non-current assets

Non-current assets edged up by ¥183 million from the previous fiscal year-end to ¥3,197 million. A decrease in investment securities of ¥186 million was covered by increases in software of ¥289 million and other items.

Liabilities

Total liabilities as of September 30, 2009 amounted to ¥5,750 million, a year-on-year increase of ¥376 million.

Current liabilities

Current liabilities increased by ¥509 million to ¥5,035 million. Although accrued income taxes decreased by ¥367 million, mainly due to a decrease in tax payments accompanying the completion of a merger with a consolidated subsidiary, the effect was offset by increases in other items such as accounts payable-trade, accounts payable-other and allowance for coin usage of ¥397 million, ¥356 million and ¥174 million, respectively.

Non-current liabilities

Non-current liabilities decreased by ¥132 million to ¥715 million. An increase in the reserve for retirement benefits of ¥118 million, generated by a change in accounting principles, was offset by a decrease in long-term borrowings of ¥200 million and other items.

Interest-bearing debt

Total interest-bearing debt, comprising long-term borrowings and corporate bonds, including those due or redeemable within one year, decreased by ¥250 million

to ¥699 million compared with the previous fiscal year-end.

Net assets

Net assets as of September 30, 2009 amounted to ¥6,807 million, a year-on-year increase of ¥1,421 million, as a result of the ¥1,669 million in net income.

Regarding treasury stock, the Company acquired a total of ¥223 million and cancelled a total of ¥723 million during the fiscal year under review.

The equity ratio as of September 30, 2009, improved by 3.8 percentage points from the previous fiscal year-end to 53.7%.

Cash Flow

Cash and cash equivalents as of September 30, 2009, increased by ¥90 million from the previous fiscal year-end and amounted to ¥1,532 million. Cash flows for the fiscal year under review were as follows:

Cash flows from operating activities

Net cash provided by operating activities was ¥1,740 million, compared with ¥1,449 million for the previous fiscal year. While there were major cash out-flow factors, such as an increase in accounts receivable-trade of ¥1,285 million, these were covered by cash in-flow items including ¥1,870 million in income before income taxes and ¥872 million in depreciation.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥1,081 million, compared with ¥1,470 million for the previous fiscal year. Major cash out-flow items included

a ¥1,230 million payment for the purchase of intangible fixed assets, most of which was software.

Cash flows from financing activities

Net cash used in financing activities increased from the previous fiscal year's ¥11 million and amounted to ¥551 million, reflecting major cash out-flow factors such as a ¥223 million payment for the acquisition of treasury stock and ¥200 million in repayments of long-term borrowings.

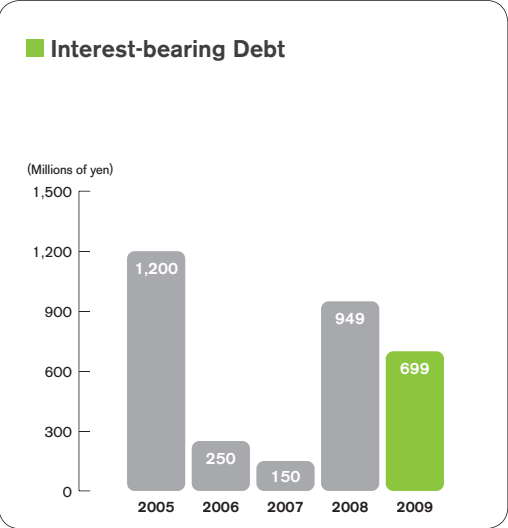
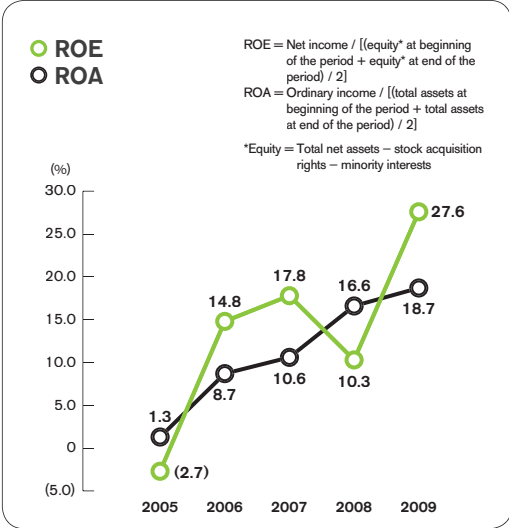
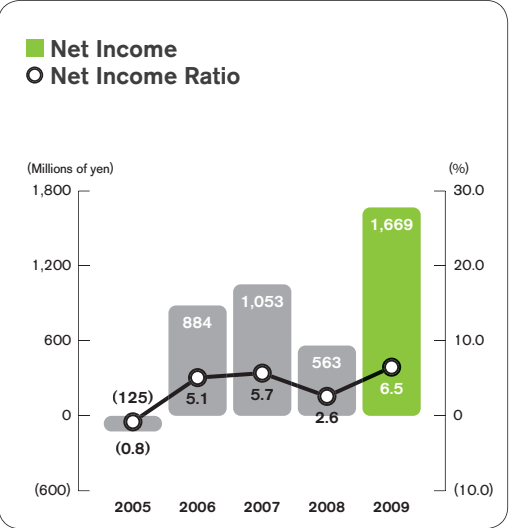
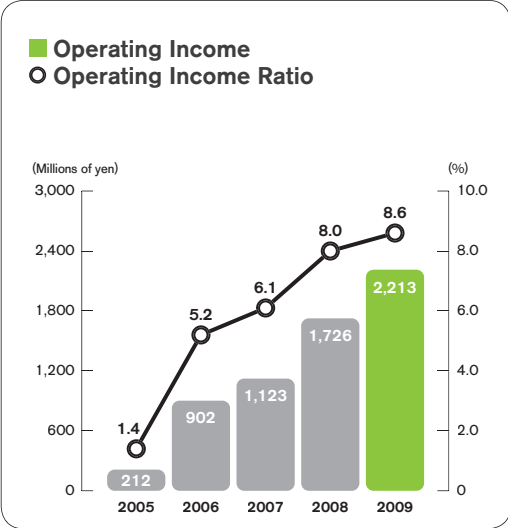
Returning Profits to Shareholders

Regarding returning profits to shareholders, the Company employs a basic capital strategy of achieving a well thought-out balance between high medium-to

long-term growth rates for sales and profits and returning profits to shareholders. In line with this strategy, the Company aims to achieve a total payout ratio (the ratio of the total of dividends and the purchase of treasury stock to consolidated net income) of 35%, while striving to build up internal reserves to provide for aggressive business development.

Toward these goals, the Company plans to maintain stable growth in dividend payments in combination with flexible and timely purchases of treasury stock. The Company also intends to cancel acquired treasury stock in principle.

For the fiscal year ended September 30, 2009, the Company acquired a total of ¥223 million in treasury stock. With regard to dividend payments, the Company



decided to increase the dividend per share by ¥1,000 to ¥2,000, reflecting the record-high performance in consolidated operating income and consolidated ordinary income achieved over four consecutive years, to enhance the return of profits to shareholders. Accordingly, the payout ratio for the fiscal year under review was 29.5%.

### Business Risk and Other Risk Factors

The major risk factors that the Company encounters in the operation of its business are listed below. As part of its information disclosure to investors, the Company also proactively discloses factors that may not necessary be equivalent to risk factors, but are considered important or beneficial to making investment decisions or to understanding of the Company's business activities.

The Company is aware of the possibility of the actual occurrence of events underlying these business risks, and takes action to prevent their occurrence and is prepared to respond rapidly should those conditions occur. Nevertheless, the Company believes that any investment decision regarding its stock should be carefully considered weighing both the risk factors and other information which may not be stated here. Readers are cautioned that the factors stated below do not cover every conceivable risk factor regarding investment in the Company's stock.

### Reliance on key individuals

Toshihiro Maeta, the Company's president and chief executive officer, serves a pivotal role in the creation of business models and accumulation of know-how in data analysis techniques, which are essential strengths of the

Company. He also plays an important role in driving daily business activities. The Company has taken steps to develop and reinforce its human resources to establish a business structure that is not excessively reliant on Mr. Maeta. Notwithstanding these efforts, if a situation were to arise in which for any reason Mr. Maeta would be unable to carry out his duties, it could have a significant impact on the business performance of the Company.

### Content distribution business

The overall market for the Company's content distribution services, including full-length song tracks, health-related information services and decorative e-mails, continues to expand. However, in the event of the following possible situations, future conditions could differ from the outlook for net sales or operating expenses currently envisaged by the Company. As a result, the Company might be forced to make changes in its management policies, business strategies or other aspects that could impact negatively on the Company's business performance.

- (1) The emergence of indeterminate factors beyond those envisaged at the time projections were made, resulting from the rapid progress of technical innovation. These factors could include a sharp erosion of the competitive superiority of mobile phones, deceleration in the spread of 3.5G or higher-generation mobile phones and major changes in user preferences.
- (2) A loss of the Company's ability to differentiate itself from its industry competitors in such aspects as the nature, quality or price of contents, resulting in the

Company being unable to achieve its targeted number of paying subscribers. Other possible situations include intensifying industry competition in acquiring subscribers and increasingly severe price competition destroying the Company's cost competitiveness, preventing it from maintaining paying subscriber bases.

- (3) Services or technologies that become outdated because of such factors as delays in the development or provision of services to meet user needs or in addressing state-of-the-art technologies. In addition, situations in which content production costs rise more rapidly than expected, making it impossible to maintain an efficient development structure for the creation of content, and driving operations into the red.
- (4) The market for mobile content distribution suddenly declines or becomes saturated, or advertising and other publicity do not achieve the expected sales impact, rendering the targeted goal for the number of paying subscribers impossible. Other situations include the cost of procuring content rising more rapidly than expected, making it difficult to secure a profit.

### Mobile advertising business

The market for mobile advertising continues to expand. However, there could be some major divergence from the projected sales and operating expenses currently envisaged by the Company due to such factors as delays in building a pool of nonpaying subscribers for public sites, increases in costs to obtain nonpaying subscribers, delays in establishing an efficient structure for media advertising sales and changes in the revenue base. The consequence of such factors could be unavoidable changes in the management policies, business strategy, or other aspects of the Company's business. These changes might have a negative influence on the Company's business performance.

### Inoperability of information network

The Company engages in business activities that use communications and information systems. It is therefore susceptible to long-term inoperability of its information network caused by such events as natural disasters and accidents, system failure caused by an unanticipated surge in the number of users accessing the system, loss of important data due to viruses or unauthorized access to its computers by third parties, or other factors. Under these circumstances there may be no alternative but to suspend business activities, which could impact negatively on the Company's business performance.

### Changes in laws or regulations

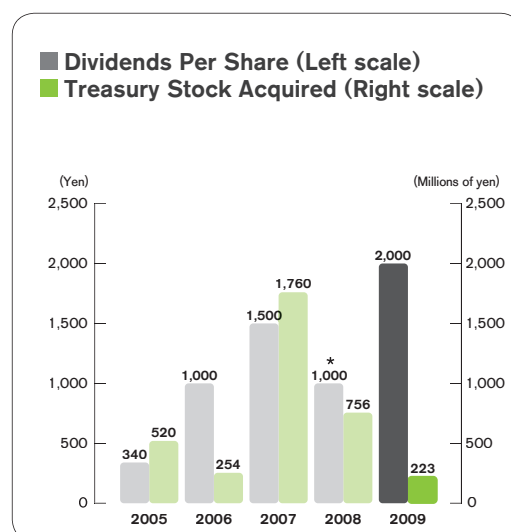
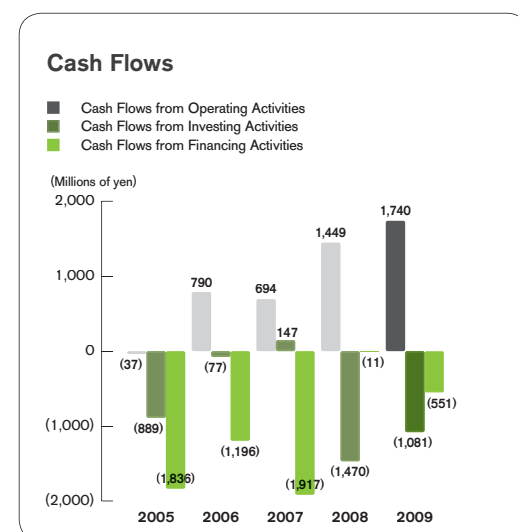
Revisions to existing laws and regulations, and/or enactment of new laws and regulations that regulate the Company's business activities, may give rise to changes in the content of services or to other factors, such as increases in the cost of operating and maintaining services, restrictions of business development, or possibly discontinuation of certain operations according to circumstances, that may be unavoidable to satisfy the requirements of the relevant regulations. These changes could have an adverse effect on the Company's business performance.

### Leakage of personal information

The Company enforces a strict policy to completely protect the personal information obtained in the course of its operation. Protection measures include the establishment of strict control systems for personal information, maintenance of information security, establishment and enhancement of internal regulations regarding personal information handling, and education and training of employees and other business partners. However, should leakage of personal information occur despite the Company's thorough precautions, the Company's business performance could be negatively affected.

### Intellectual property rights

The Company operates and develops its business while being cautious not to infringe on the intellectual property rights of third parties. However, it is possible that it could do so without knowing, and the third party concerned may initiate litigation to demand compensation, cessation, or some other remedy. These actions could impact negatively on the Company's business performance.



\* Two-for-one stock split on April 1, 2008. Before fiscal year 2007 (ended Sept. 30, 2007), dividends were calculated by the pre-split amount of stock.

## Consolidated Balance Sheets

MTI Ltd. and Consolidated Subsidiaries

Thousands of Yen

As of September 30, 2008 and 2009

2008

2009

### ASSETS

#### Current assets

Cash and deposits.....	¥ 1,442,113	¥ 1,532,367
Accounts receivable—trade .....	5,441,371	6,733,666
Merchandise.....	1,154	—
Supplies.....	8,855	6,336
Advances .....	151,402	318,454
Prepaid expenses .....	210,863	293,937
Consumption taxes receivable .....	28,145	—
Deferred tax assets.....	554,452	658,367
Other .....	238,845	157,503
Allowance for doubtful accounts.....	(332,258)	(340,726)
Total current assets .....	7,744,946	9,359,907

#### Non-current assets

Tangible fixed assets:		
Leasehold improvements.....	271,657	281,660
Accumulated depreciation .....	(75,529)	(109,360)
Leasehold improvements, net .....	196,128	172,299
Tools, furniture and fixtures.....	154,426	158,847
Accumulated depreciation .....	(102,866)	(117,678)
Tools, furniture and fixtures, net.....	51,560	41,168
Total tangible fixed assets .....	247,688	213,468
Intangible assets:		
Trademark rights .....	1,736	2,089
Software .....	1,049,195	1,338,488
Telephone rights .....	349	349
Other .....	5,283	4,326
Total intangible assets .....	1,056,564	1,345,253
Investments and other assets:		
Investment securities (Note 1).....	781,698	594,702
Long-term loans.....	444	150
Leasehold deposits.....	562,791	593,512
Long-term prepaid expenses.....	6,725	22,828
Deferred tax assets.....	330,760	420,902
Other .....	57,577	23,879
Allowance for doubtful accounts .....	(17,032)	(9,860)
Allowance for loss on investments .....	(13,182)	(7,327)
Total investments and other assets .....	1,709,783	1,638,787
Total non-current assets .....	3,014,035	3,197,509
Total assets .....	¥ 10,758,982	¥ 12,557,417

See accompanying notes to consolidated financial statements.

Thousands of Yen

As of September 30, 2008 and 2009

2008

2009

### LIABILITIES

#### Current liabilities

Accounts payable—trade.....	¥ 1,577,043	¥ 1,974,322
Long-term borrowings due within one year.....	200,196	200,196
Corporate bonds redeemable within one year .....	50,000	—
Accounts payable—other.....	766,760	1,123,063
Accrued expenses .....	338,845	347,788
Accrued income taxes.....	799,924	432,006
Accrued consumption taxes .....	113,047	65,959
Advances received .....	12,014	10,186
Deposits received.....	35,786	51,338
Allowance for coin usage.....	628,547	803,064
Reserve for director bonuses.....	2,611	25,320
Other .....	537	1,781
Total current liabilities.....	4,525,313	5,035,027

#### Non-current liabilities

Long-term borrowings.....	699,706	499,510
Reserve for retirement benefits .....	2,021	120,409
Negative goodwill.....	104,366	95,248
Other .....	42,037	141
Total non-current liabilities .....	848,131	715,309
Total liabilities .....	5,373,444	5,750,336

### NET ASSETS

#### Shareholders' equity

Common stock .....	2,506,071	2,535,392
Capital surplus .....	3,016,252	3,045,573
Retained earnings.....	335,459	1,123,839
Treasury stock .....	(499,372)	—
Total shareholders' equity .....	5,358,411	6,704,805

#### Unrealized gain and translation adjustment

Unrealized gain on available-for-sale securities .....	10,323	42,897
Total unrealized gain and translation adjustment .....	10,323	42,897

#### Stock acquisition rights .....

	16,802	59,377
--	--------	--------

#### Total net assets.....

	5,385,537	6,807,080
--	-----------	-----------

#### Total liabilities and net assets .....

	¥ 10,758,982	¥ 12,557,417
--	--------------	--------------

## Consolidated Statements of Operations

MTI Ltd. and Consolidated Subsidiaries

Thousands of Yen

For the years ended September 30, 2008 and 2009	2008	2009
<b>Net sales</b> .....	¥ 21,615,089	¥ 25,732,891
<b>Cost of sales</b> .....	6,286,022	7,920,514
Gross profit .....	15,329,066	17,812,377
<b>Selling, general and administrative expenses</b> (Notes 1 and 2) .....	13,602,546	15,599,263
Operating income.....	1,726,519	2,213,113
<b>Non-operating income</b>		
Interest income .....	3,140	447
Dividend income.....	3,673	3,098
Amortization of negative goodwill.....	9,117	9,117
Gain on investments in limited partnerships .....	19,589	—
Other.....	6,654	6,303
	42,176	18,966
<b>Non-operating expenses</b>		
Interest expense.....	21,766	20,526
Foreign exchange losses .....	363	—
Equity in losses of affiliates .....	60,180	1,365
Consumption taxes adjustment .....	—	25,739
Other.....	10,821	6,457
	93,132	54,089
Ordinary income.....	1,675,564	2,177,990
<b>Extraordinary gains</b>		
Reversal of allowance for doubtful accounts .....	—	26,407
Gain on receipt of donated fixed assets (Note 3).....	32,543	—
Other.....	—	6
	32,543	26,413
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets (Note 5) .....	—	100,574
Loss on devaluation of investment securities.....	261,207	19,185
Allowance for loss on investments .....	13,182	—
Allowance for doubtful accounts .....	54,689	—
Retirement benefit expenses.....	—	89,116
Expenses for content-related information.....	—	109,245
Other (Note 4).....	7,901	15,840
	336,981	333,961
<b>Income before income taxes</b> .....	1,371,126	1,870,442
Income taxes—current.....	1,061,640	419,719
Income taxes—deferred .....	(253,811)	(218,830)
	807,828	200,889
<b>Net income</b> .....	¥ 563,297	¥ 1,669,553

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

MTI Ltd. and Consolidated Subsidiaries

Thousands of Yen

For the year ended September 30, 2008	Shareholders' equity					Unrealized gain (loss) and translation adjustment	Stock acquisition rights	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain (loss) on available-for- sale securities		
Balance at September 30, 2007	¥ 2,481,243	¥ 4,691,424	¥ 913,003	¥ (2,536,284)	¥ 5,549,388	¥ (20,255)	¥ —	¥ 5,529,132
Changes during the fiscal year....								
New share issuance .....	24,828	24,828			49,656			49,656
Cash dividends.....			(104,955)		(104,955)			(104,955)
Net income .....			563,297		563,297			563,297
Change in scope of equity method...			57,350		57,350			57,350
Acquisition of treasury stock....				(756,325)	(756,325)			(756,325)
Cancellation of treasury stock..		(1,700,000)	(1,093,237)	2,793,237	—			—
Net change in items other than shareholders' equity .....						30,578	16,802	47,380
Total changes during the fiscal year...	24,828	(1,675,171)	(577,544)	2,036,912	(190,976)	30,578	16,802	(143,595)
<b>Balance at September 30, 2008</b>	<b>¥ 2,506,071</b>	<b>¥ 3,016,252</b>	<b>¥ 335,459</b>	<b>¥ (499,372)</b>	<b>¥ 5,358,411</b>	<b>¥ 10,323</b>	<b>¥ 16,802</b>	<b>¥ 5,385,537</b>

For the year ended September 30, 2009	Shareholders' equity					Unrealized gain (loss) and translation adjustment	Stock acquisition rights	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain (loss) on available-for- sale securities		
Balance at September 30, 2008	¥ 2,506,071	¥ 3,016,252	¥ 335,459	¥ (499,372)	¥ 5,358,411	¥ 10,323	¥ 16,802	¥ 5,385,537
Changes during the fiscal year....								
New share issuance.....	29,320	29,320			58,640			58,640
Cash dividends.....			(135,687)		(135,687)			(135,687)
Net income .....			1,669,553		1,669,553			1,669,553
Change in scope of consolidation ..			(22,128)		(22,128)			(22,128)
Acquisition of treasury stock .....				(223,985)	(223,985)			(223,985)
Cancellation of treasury stock ..			(723,357)	723,357	—			—
Net change in items other than shareholders' equity.....						32,574	42,575	75,149
Total changes during the fiscal year...	29,320	29,320	788,380	499,372	1,346,393	32,574	42,575	1,421,542
<b>Balance at September 30, 2009</b>	<b>¥ 2,535,392</b>	<b>¥ 3,045,573</b>	<b>¥ 1,123,839</b>	<b>¥ —</b>	<b>¥ 6,704,805</b>	<b>¥ 42,897</b>	<b>¥ 59,377</b>	<b>¥ 6,807,080</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

MTI Ltd. and Consolidated Subsidiaries

Thousands of Yen

For the years ended September 30, 2008 and 2009

**2008** **2009**

### Cash flows from operating activities

Income before income taxes .....	¥ 1,371,126	¥ 1,870,442
Depreciation and amortization .....	660,303	872,162
Amortization of negative goodwill .....	(9,117)	(9,117)
Increase in allowance for doubtful accounts .....	65,319	1,295
Increase in reserve for retirement benefits .....	—	118,388
Interest and dividend income .....	(6,814)	(3,545)
Interest expense .....	21,766	20,526
Equity in losses of affiliates .....	60,180	1,365
Gain on receipt of donated fixed assets .....	(32,543)	—
Allowance for coin usage .....	286,904	174,516
Loss on retirement of intangible assets .....	—	100,574
Loss on devaluation of investment securities .....	261,207	19,185
Loss on investments in limited partnerships .....	(19,589)	—
Increase in accounts receivable—trade .....	(561,685)	(1,285,915)
Increase in merchandise .....	(457)	—
Decrease (increase) in supplies .....	(8,627)	2,479
Decrease (increase) in advances .....	49,050	(167,052)
Increase in prepaid expenses .....	(66,977)	(77,772)
Decrease (increase) in accounts receivable—other .....	(39,978)	72,521
Decrease (increase) in payments for other .....	(5,010)	—
Increase (decrease) in notes and accounts payable—trade .....	85,378	397,278
Increase (decrease) in accounts payable—other .....	(86,580)	356,233
Increase (decrease) in consumption taxes payable .....	29,347	(47,087)
Increase in accrued expenses .....	69,133	9,567
Decrease in advances received .....	(7,632)	(1,827)
Increase in deposits received .....	2,079	15,605
Other .....	91,351	103,379
Subtotal .....	2,208,133	2,543,205
Interest and dividends income received .....	6,814	3,545
Interest paid .....	(22,742)	(20,526)
Income taxes paid .....	(742,747)	(785,339)
Net cash provided by operating activities .....	1,449,459	1,740,885

### Cash flows from investing activities

Payment for purchases of tangible fixed assets .....	(97,062)	(14,423)
Payment for purchases of intangible fixed assets .....	(1,038,448)	(1,230,413)
Proceeds from sales of stocks of subsidiaries and affiliates .....	—	216,000
Increase in loans .....	(42,750)	—
Collection of loans .....	5,265	294
Increase in payment of leasehold deposits .....	(280,380)	(30,720)
Other .....	(17,244)	(21,922)
Net cash used in investing activities .....	(1,470,620)	(1,081,186)

### Cash flows from financing activities

Proceeds from long-term borrowings .....	1,000,000	—
Repayments of long-term borrowings .....	(100,098)	(200,196)
Redemption of corporate bonds .....	(100,000)	(50,000)
Proceeds from issuance of shares .....	49,656	58,640
Payment for acquisition of treasury stock .....	(756,325)	(223,985)
Dividends paid .....	(104,955)	(135,687)
Net cash used in financing activities .....	(11,722)	(551,227)

**Net increase (decrease) in cash and cash equivalents .....** (32,883) **108,471**

**Cash and cash equivalents at beginning of the period .....** 1,474,997 **1,442,113**

**Decrease resulting from exclusion of subsidiaries from scope of consolidation .....** — **(18,217)**

**Cash and cash equivalents at end of the period (Note 1) .....** ¥ 1,442,113 **¥ 1,532,367**

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

MTI Ltd. and Consolidated Subsidiaries  
Fiscal 2008 (October 1, 2007 to September 30, 2008) and 2009 (October 1, 2008 to September 30, 2009)

### 1. Basis of Presentation

The accompanying consolidated financial statements of MTI Ltd. (the “Company”) and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

### 2. Scope of Consolidation

For the year ended September 30, 2008

The Company had the following nine subsidiaries, all of which were consolidated.

- comic.jp., inc.
- TeraMobile, Inc.
- MGM Holding Ltd.
- PicoSoft, Inc.
- PicoSoft Holding, Inc.
- FIL Corporation
- majiok, inc
- music.jp, inc.
- MegaMobile, Inc.

Based on the resolution of the Board of Directors' Meeting held on June 21, 2007 to approve the dissolution and special liquidation of the former consolidated subsidiary, CH Ltd., it completed the process of special liquidation on January 16, 2008. CH Ltd. is included as part of the consolidated statements of income up to the point where it was removed from the scope of consolidation.

The Board of Directors' Meeting held on August 21, 2008 approved dissolution and special liquidation of PicoSoft Holding, Inc. PicoSoft Holding, Inc. was under the process of dissolution and special liquidation as of September 30, 2008.

For the year ended September 30, 2009

The Company had the following seven subsidiaries, all of which were consolidated.

- TeraMobile, Inc.
- MGM Holding Ltd.
- FIL Corporation
- music.jp, inc.
- MegaMobile, Inc.
- comic.jp., inc. (new)
- movile, inc. (new)

The former consolidated subsidiary PicoSoft, Inc. was merged with the Company as of November 1, 2008 and thus excluded from the scope of consolidation. It is included as part of the consolidated statements of income up to the point of exclusion from the scope of consolidation.

The former consolidated subsidiaries majiok, inc. and PicoSoft Holding, Inc. were excluded from the scope of consolidation due to a decline in their significance in the context of the consolidated financial statements. These subsidiaries completed the process of special liquidation by the end of fiscal 2009.

The former consolidated subsidiary comic. jp., inc. was merged with the Company as of February 1, 2009 and

thus excluded from the scope of consolidation. It is included as part of the consolidated statements of income up to the point of exclusion from the scope of consolidation.

comic.jp., inc. (new), and movile, inc. (new) were established during fiscal 2009, and therefore included in the scope of consolidation.

### 3. Affiliates Accounted for by the Equity Method

For the year ended September 30, 2008

- (1) Names and number of affiliates accounted for by the equity method:  
Number of affiliates: 3  
Names of affiliates: BEQONE CAPITAL INC.  
i2ts, inc.  
movile, inc.

The former affiliate mobilebook.jp, inc. was excluded from the scope of the equity method application, as the percentage of interests in mobilebook.jp, inc. held by the Company dropped as a result of a private placement of new shares made on February 27, 2008. It is included as part of the consolidated statements of income up to the point of exclusion from the scope of the equity method application.

- (2) Other affiliates outside the scope of the equity method application:  
Number of affiliates: 1  
Name of affiliate: Mobbie.com inc.  
The company has been excluded from the scope of the equity method application as it has only a minor effect on consolidated income and retained earnings (accumulated deficits) and is of relatively little significance in the context of the consolidated financial statements.
- (3) For equity-method affiliates whose balance sheet dates are different from the consolidated balance sheet date, provisional financial statements as of the consolidated balance sheet date are used.

For the year ended September 30, 2009

- (1) Names and number of affiliates accounted for by the equity method:  
Number of affiliates: 1  
Names of affiliates: i2ts, inc.  
The former affiliate BEQONE CAPITAL INC. was excluded from the scope of the equity method application, as all of its shares held by the Company were sold on November 28, 2008. It is included as part of the consolidated statements of income up to the point of exclusion from the scope of the equity method application.

The former affiliate movile, inc. was excluded from the scope of the equity method application, due to a decline in its significance in the context of the consolidated financial statements. It is included as part of the consolidated statements of income up to the point of exclusion from the scope of the equity method application.

- (2) There are no affiliates outside the scope of the equity method application.
- (3) For equity-method affiliates whose balance sheet dates are different from the consolidated balance sheet date, provisional financial statements as of the consolidated balance sheet date are used.

#### 4. Fiscal Year Of Consolidated Subsidiaries

The fiscal year-end of all of the consolidated subsidiaries of the Company is the same date as the consolidated balance sheet date.

#### 5. Significant Accounting Policies

##### 1) Valuation of assets

###### (1) Securities

Debt securities to be held to maturity are valued by the amortized cost method. Available-for-sale securities with determinable market value are stated at fair value based on the market prices on the balance sheet date (unrealized gains/ losses are directly charged to equity, and cost of sales is calculated in principle by the moving-average method). Securities without determinable market value other than held-to-maturity securities are stated at cost by the moving average method. Investments in limited partnerships for investment business are valued based on the Company's ownership ratio of net assets of the limited partnership in the most recent fiscal year.

###### (2) Inventories

For the year ended September 30, 2008  
Merchandise is stated at the lower of cost or market, with the cost being determined by the moving average method. Supplies are stated at the last purchase price.

For the year ended September 30, 2009

Supplies are stated at the lower of the last purchase price or net selling value.

##### 2) Depreciation and amortization

###### (1) Tangible fixed assets

For the year ended September 30, 2008

The Company and its consolidated subsidiaries have adopted the declining balance method for the depreciation of tangible fixed assets.

The principal useful lives of the assets are as follows:

Leasehold improvements: 15 to 18 years  
Tools, furniture and fixtures: 3 to 10 years

For the year ended September 30, 2009

Tangible fixed assets:

The Company and its consolidated subsidiaries have adopted the declining balance method for the depreciation of tangible fixed assets.

The principal useful lives of the assets are as follows:

Leasehold improvements: 15 to 18 years  
Tools, furniture and fixtures: 3 to 10 years

Leased assets:

Leased assets under finance lease transactions that do not deem to transfer ownership of the leased assets to the lessee and have commenced the transactions prior to October 1, 2008 are accounted for as operating leases as in previous fiscal years.

###### (2) Intangible assets

Trademark rights:

The Company and its consolidated subsidiaries have adopted the straight-line method.

Software:

Software for in-house use is amortized by the straight-line method over estimated useful lives of 2 to 5 years.

Leased assets:

Leased assets under finance lease transactions that do not deem to transfer ownership of the leased assets to the lessee and have commenced the transactions prior to October 1, 2008 are accounted for as operating leases as in previous fiscal years.

###### (3) Long-term prepaid expenses

The Company and its consolidated subsidiaries have adopted the straight-line method.

##### 3) Reserves

###### (1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for possible losses on collection consisting of specific uncollectible receivables and generally-expected losses based on its experience.

###### (2) Allowance for loss on investments

Allowance for loss on investments is provided for possible losses on investments at estimation.

###### (3) Allowance for coin usage

Allowance for coin usage is provided for the possible cost of sales for the coin distributed to members of *music.jp*® for song ringtones and full-length song track services, based on future usage estimated at the fiscal year-end.

###### (4) Reserve for director bonuses

Reserve for director bonuses is provided at an amount accrued during the fiscal year, to provide for the future payment to directors.

###### (5) Reserve for retirement benefits

For the year ended September 30, 2008

Reserve for retirement benefits is provided at the amount to be paid if all eligible employees retired at the balance sheet date.

For the year ended September 30, 2009

Reserve for retirement benefits is provided at the amount to be paid if all eligible employees retired at the balance sheet date. Net unrecognized actuarial gain or loss is amortized by the straight-line method over certain years shorter than the estimated average years of service of the eligible employees at the point when such gain or loss was incurred, and credited or charged to income starting from the year following the year in which the gain or loss was incurred.

##### 4) Foreign exchange translation of assets and liabilities

Foreign currency-denominated monetary claims and obligations are translated into Japanese yen at the exchange rates prevailing at the balance sheet date and translation adjustments are charged directly to income.

##### 5) Leases

For the year ended September 30, 2008

Finance leases, except for those under which ownership of the leased assets is to be transferred to the lessee, are treated as operating leases.

For the year ended September 30, 2009

Not applicable

##### 6) Shareholders' equity

Under the Corporate Law of Japan, an amount equal to 10% of the amount to be distributed as distribution of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by the resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor legal reserve is available for distributions.

##### 7) Other significant accounting practices

Consumption taxes

Consumption taxes levied by the government are excluded from income or expenses.

#### 6. Valuation of Assets and Liabilities of Consolidated Subsidiaries

Assets and liabilities of consolidated subsidiaries, if being acquired, are valued at market upon acquisition.

#### 7. Amortization of Goodwill and Negative Goodwill

Goodwill and negative goodwill are evenly amortized over a period that is individually determined based on when the effect of such goodwill or negative goodwill comes out.

#### 8. Scope of Cash and Cash Equivalents for the Statements of Cash Flows

Cash and cash equivalents include cash on hand, deposits at demand, and short-term investments with a maturity of three months or less carrying insignificant risk of any fluctuation in market value.

##### Accounting Changes

For the year ended September 30, 2009

##### New accounting standards for lease transactions

Until the previous fiscal year, finance lease transactions that do not deem to transfer ownership of them had been accounted for as operating leases. Effective October 1, 2008, the Company adopted "Accounting Standard for Lease Transactions" (Accounting Standards Board Statement No. 13, originally issued by the Business Accounting Deliberation Council on June 17, 1993 and revised by the Accounting Standards Board of Japan on March 30, 2007), and "Guidance for Accounting Standard for Lease Transactions" (Accounting Standard Board Guidance No. 16, originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the Accounting Standards Board of Japan on March 30, 2007). In accordance with the revised accounting standards, finance lease transactions that do not

deem to transfer ownership of the leased assets to the lessee are accounted for as ordinary purchase transactions.

However, finance lease transactions that do not deem to transfer ownership of them and have commenced the transactions prior to adoption of new accounting standards are accounted for as operating leases as in previous fiscal years.

There was no effect of this accounting change on income.

##### Accounting for retirement benefits

Until the previous fiscal year, the Company had adopted a simplified method for the calculation of the retirement benefit obligation. Effective October 1, 2008, the Company changed its accounting method to the principle method, in order to achieve more accurate calculation of retirement benefit obligation and periodic income. This change was made due to increased significance of the amount of the retirement benefit obligation, reflecting an increase in the number of employees.

Accordingly, the difference between the retirement benefit obligation as of October 1, 2008 calculated by the simplified method and that by the principle method, ¥89,116 thousand, was posted as an extraordinary loss.

As a result of this accounting change, operating income, ordinary income and income before income taxes decreased by ¥26,489 thousand, ¥26,489 thousand and ¥115,606 thousand, respectively, compared to what would have been the result under the previous accounting method.

The effects of this accounting change on the segment information are described in the Note "Segment Information."

##### Changes in Presentation

For the year ended September 30, 2008

"Guarantee deposits", which was separately shown in the consolidated balance sheet as of September 30, 2007, is included in "other" of investments and other assets in the consolidated balance sheet as of September 30, 2008, since its amount does not exceed 5% of total assets. The balance of guarantee deposits as of September 30, 2008 was ¥8,608 thousand.

For the year ended September 30, 2009

##### Consolidated Statements of Cash Flows

"Increase (decrease) in reserve for retirement benefits", which was included in "other" of cash flows from operating activities in the consolidated statement of cash flows for the year ended September 30, 2008, is separately shown in the consolidated statement of cash flows for the year ended September 30, 2009, due to the increased significance of its amount. The amount of increase in reserve for retirement benefits included in "other" of cash flows from operating activities for the year ended September 30, 2008 was ¥2,021 thousand.

##### Additional Information

For the year ended September 30, 2008

##### Depreciation method of depreciable assets

In accordance with the revisions of the Corporate Tax Law, if tangible fixed assets acquired before April 1, 2007 are being depreciated until 5% of acquisition cost as stipulated in the former Corporate Tax Law, such 5% portion

(excluding minimal amount) is systematically depreciated over 5 years from the following fiscal year in which the carrying value of the tangible fixed assets reaches 5% of the

acquisition cost. The related expense is included in depreciation. The effect of this treatment was not material.

Notes to Consolidated Balance Sheets

(1) Investments in non-consolidated subsidiaries and affiliates

Thousands of Yen		
As of September 30	2008	2009
Investment securities .....	¥423,495	¥208,158

(2) The Company has concluded agreements on overdrafts and commitments with seven banks for the purpose of efficient financing of working capital. The unused balances at September 30, 2008 and 2009 were as follows:

Thousands of Yen		
As of September 30	2008	2009
Available overdrafts and commitments.....	¥5,100,000	¥5,100,000
Used.....	—	—
Unused balance .....	¥5,100,000	¥5,100,000

Notes to Consolidated Statements of Operations

(1) Major items of selling, general and administrative expenses are as follows:

Thousands of Yen		
For the years ended September 30	2008	2009
Depreciation and amortization .....	¥ 636,902	¥ 855,410
Directors' salaries.....	100,835	92,936
Reserve for director bonuses.....	2,611	25,320
Wages and benefits.....	2,170,442	2,605,588
Retirement benefit expenses.....	2,439	29,271
Expenses for dispatched staff .....	562,525	390,770
Transportation.....	9,763	11,847
Payment of commission .....	2,410,039	2,826,017
Rent.....	584,887	692,736
Outsourcing expenses .....	738,699	634,475
Advertising and public relations.....	4,753,362	5,674,808
Provision of allowance for doubtful accounts .....	255,072	292,557

(2) Selling, general and administrative expenses include R&D expenses of ¥20,731 thousand and ¥32,737 thousand for the years ended September 30, 2008 and 2009, respectively.

(3) Breakdown of gain on receipt of donated fixed assets:

Thousands of Yen		
For the years ended September 30	2008	2009
Leasehold improvements .....	¥ 22,934	¥ —
Tools, furniture and fixtures.....	9,609	—
Total .....	¥ 32,543	¥ —

(4) Breakdown of other extraordinary losses:

Thousands of Yen		
For the years ended September 30	2008	2009
Expenses incurred for cancellation of license agreements.....	¥ 2,649	¥ —
Compensation for system breakdown .....	5,252	—
Total .....	¥ 7,901	¥ —

(5) Loss on retirement of non-current assets for the year ended September 30, 2009 was incurred on software.

Notes to Consolidated Statements of Changes in Net Assets

For the year ended September 30, 2008

1. Shares issued

Share type	At September 30, 2007	Increase	Decrease	At September 30, 2008
Common stock	84,278.91 shares	70,708.20 shares	16,107.11 shares	138,880.00 shares

Overview of causes of change

Breakdown of causes of increase:

Increase due to exercise of subscription rights:	39.00 shares
Increase due to exercise of stock acquisition rights:	402.00 shares
Increase due to two-for-one stock split effective on April 1, 2008:	70,267.20 shares

Breakdown of causes of decrease:

Decrease due to cancellation of treasury stock in accordance with Article 178 of the Corporate Law:	16,106.71 shares
Decrease due to purchase of odd-lot shares:	0.40 shares

2. Treasury stock

Share type	At September 30, 2007	Increase	Decrease	At September 30, 2008
Common stock	14,308.71 shares	4,991.00 shares	16,106.71 shares	3,193.00 shares

Overview of causes of change

Breakdown of causes of increase:

Acquisition based on a resolution by the Board of Directors in accordance with Article 165, Clause 2 of the Corporate Law:	4,087.00 shares
Increase due to two-for-one stock split effective on April 1, 2008:	894.00 shares
Increase due to purchase of odd-lot shares:	10.00 shares

Breakdown of causes of decrease:

Decrease due to cancellation of treasury stock in accordance with Article 178 of the Corporate Law:	16,106.71 shares
---	------------------

3. Stock acquisition rights

Number of shares to be issued for stock acquisition rights							
Company name	Details	Type of shares to be issued for stock acquisition rights	At Sept. 30, 2007	Increase	Decrease	At Sept. 30, 2008	Balance at Sept. 30, 2008
MTI Ltd.	Stock acquisition right No. 11 issued as stock options (issued on March 10, 2008)	—	—	—	—	—	¥16,802 thousand

4. Dividends

(1) Dividend payment amounts

Resolution	Share type	Total dividend amount	Dividend per share	Record date	Effective date
General Meeting of Shareholders on December 22, 2007	Common stock	¥104,955 thousand	¥1,500.0	September 30, 2007	December 25, 2007

(2) Dividends with a record date in the subject fiscal year and with an effective date in the following fiscal year

Resolution	Share type	Source of dividend funds	Total dividend amount	Dividend per share	Record date	Effective date
General Meeting of Shareholders on December 20, 2008	Common stock	Retained earnings	¥135,687 thousand	¥1,000.0	September 30, 2008	December 22, 2008

For the year ended September 30, 2009

1. Shares issued

Share type	At September 30, 2008	Increase	Decrease	At September 30, 2009
Common stock	138,880.00 shares	878.00 shares	5,416.00 shares	134,342.00 shares

Overview of causes of change

Breakdown of causes of increase:

Increase due to exercise of subscription rights: 8.00 shares

Increase due to exercise of stock acquisition rights: 870.00 shares

Breakdown of causes of decrease:

Decrease due to cancellation of treasury stock in accordance with

Article 178 of the Corporate Law: 5,416.00 shares

2. Treasury stock

Share type	At September 30, 2008	Increase	Decrease	At September 30, 2009
Common stock	3,193.00 shares	2,223.00 shares	5,416.00 shares	—

Overview of causes of change

Breakdown of causes of increase:

Acquisition based on a resolution by the Board of Directors in accordance with

Article 165, Clause 2 of the Corporate Law: 2,223.00 shares

Breakdown of causes of decrease:

Decrease due to cancellation of treasury stock in accordance with

Article 178 of the Corporate Law: 5,416.00 shares

3. Stock acquisition rights

Number of shares to be issued for stock acquisition rights							
Company name	Details	Type of shares to be issued for stock acquisition rights	At Sept. 30, 2008	Increase	Decrease	At Sept. 30, 2009	Balance at Sept. 30, 2009
MTI Ltd.	Stock acquisition right No. 11 issued as stock options (issued on March 10, 2008)	—	—	—	—	—	¥39,540 thousand
	Stock acquisition right No. 12 issued as stock options (issued on February 17, 2009)	—	—	—	—	—	¥19,836 thousand
Total							¥59,377 thousand

4. Dividends

(1) Dividend payment amounts

Resolution	Share type	Total dividend amount	Dividend per share	Record date	Effective date
General Meeting of Shareholders on December 20, 2008	Common stock	¥135,687 thousand	¥1,000.0	September 30, 2008	December 22, 2008

(2) Dividends with a record date in the subject fiscal year and with an effective date in the following fiscal year

Resolution	Share type	Source of dividend funds	Total dividend amount	Dividend per share	Record date	Effective date
General Meeting of Shareholders on December 23, 2009	Common stock	Retained earnings	¥268,684 thousand	¥2,000.0	September 30, 2009	December 24, 2009

Notes to Consolidated Statements of Cash Flows

Balance of cash and cash equivalents at the fiscal year-end and the reconciliation to cash and deposits in the consolidated balance sheets

Thousands of Yen		
	2008	2009
Cash and deposits.....	¥ 1,442,113	¥ 1,532,367
Time deposits with maturities longer than 3 months.....	—	—
Cash and cash equivalents.....	¥ 1,442,113	¥ 1,532,367

Leases

For the year ended September 30, 2008

1) Finance lease transactions except for those under which the ownership of the leased assets are to be transferred to the lessee

(As a lessee)

(1) Equivalents of acquisition cost, accumulated depreciation and net book value of leased assets at fiscal year-end

Thousands of Yen			
	Acquisition cost	Accumulated depreciation	Net book value
Tools, furniture and fixtures.....	¥ 434,195	¥ 285,637	¥ 148,557
Software.....	35,122	16,974	18,147
Total.....	¥ 469,317	¥ 302,611	¥ 166,705

(2) Outstanding lease commitments at fiscal year-end

Thousands of Yen	
Due within 1 year.....	¥ 121,444
Due over 1 year .....	49,649
Total .....	¥ 171,093

(3) Lease expenses, depreciation equivalent and interest expense equivalent for the year

Thousands of Yen	
Lease expenses .....	¥ 168,654
Depreciation equivalent.....	160,415
Interest expense equivalent.....	7,165

(4) Method of computing depreciation equivalents

The straight-line method is applied, assuming that the lease period is the same as the useful life and residual value is zero.

(5) Method of computing interest expense equivalents

The interest method is applied in allocating the interest expense equivalents over the lease period, assuming that the difference between the total lease expenses and the acquisition cost equivalents of the leased assets is equivalent to interest expenses.

(Impairment losses)

There were no impairment losses allocated to leased assets.

For the year ended September 30, 2009

1) Finance lease transactions except for those under which the ownership of the leased assets are to be transferred to the lessee, and with lease commencement prior to the adoption of new accounting standards for lease transactions

(As a lessee)

(1) Equivalents of acquisition cost, accumulated depreciation and net book value of leased assets at fiscal year-end

	Thousands of Yen		
	Acquisition cost	Accumulated depreciation	Net book value
Tools, furniture and fixtures.....	¥ 203,200	¥ 165,033	¥ 38,167
Software.....	26,326	16,534	9,791
Total.....	¥ 229,526	¥ 181,568	¥ 47,958

(2) Outstanding lease commitments at fiscal year-end

Thousands of Yen	
Due within 1 year .....	¥ 33,638
Due over 1 year .....	16,057
Total .....	¥ 49,696

(3) Lease expenses, depreciation equivalent and interest expense equivalent for the year

Thousands of Yen	
Lease expenses .....	¥ 122,162
Depreciation equivalent.....	116,386
Interest expense equivalent.....	3,358

(4) Method of computing depreciation equivalents

The straight-line method is applied, assuming that the lease period is the same as the useful life and residual value is zero.

(5) Method of computing interest expense equivalents

The interest method is applied in allocating the interest expense equivalents over the lease period, assuming that the difference between the total lease expenses and the acquisition cost equivalents of the leased assets is equivalent to interest expenses.

(Impairment losses)

There were no impairment losses allocated to lease assets.

2) Operating lease transactions

(As a lessee)

Outstanding lease commitments for non-cancellable operating lease transactions at fiscal year-end

Thousands of Yen	
Due within 1 year.....	¥ 57,092
Due over 1 year .....	82,853
Total .....	¥ 139,945

Securities

1. Available-for-sale securities with determinable market value

Thousands of Yen						
As of September 30	2008			2009		
Securities whose carrying value exceeds their acquisition cost	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Equity securities.....	¥ 8,267	¥ 27,259	¥ 18,991	¥ 90,563	¥ 162,902	¥ 72,339
Bonds .....						
Government bonds.....	—	—	—	—	—	—
Corporate bonds .....	—	—	—	—	—	—
Other bonds .....	—	—	—	—	—	—
Other.....	—	—	—	—	—	—
Subtotal .....	¥ 8,267	¥ 27,259	¥ 18,991	¥ 90,563	¥ 162,902	¥ 72,339
Securities whose carrying value does not exceed their acquisition cost	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Equity securities.....	¥ 82,302	¥ 82,302	¥ —	¥ —	¥ —	¥ —
Bonds .....						
Government bonds.....	—	—	—	—	—	—
Corporate bonds .....	—	—	—	—	—	—
Other bonds .....	—	—	—	—	—	—
Other.....	—	—	—	—	—	—
Subtotal .....	¥ 82,302	¥ 82,302	¥ —	¥ —	¥ —	¥ —
Total .....	¥ 90,569	¥ 109,561	¥ 18,991	¥ 90,563	¥ 162,902	¥ 72,339

Note: The "Acquisition cost" in the table above is the book value after application of accounting for impairment where applicable.

In accounting for impairment, securities with determinable market value at the fiscal year-end that had declined by more than 50% from their acquisition cost were impaired by the full amount of the decline, while those that fell at a rate of between 30% and 50% were impaired by an amount recognized as necessary in consideration of the significance of the declined amount, the possibility of recovery, and other factors.

2. Securities without determinable market value

Thousands of Yen		
As of September 30	2008	2009
Carrying value		
Available-for-sale securities		
Non-listed equity shares .....	¥ 248,641	¥ 223,641
Corporate bonds.....	—	—
Other.....	—	—
Total .....	¥ 248,641	¥ 223,641

Note: Impairment losses recorded for securities for the years ended September 30, 2008 and 2009 were as follows.

Thousands of Yen		
For the years ended September 30	2008	2009
Available-for-sale securities		
Equity shares with determinable market value .....	¥ 166,170	¥ —
Equity shares without determinable market value.....	95,037	25,000
Total .....	¥ 261,207	¥ 25,000

Derivative Transactions

The Company and its subsidiaries did not engage in derivative transactions for the years ended September 30, 2008 and 2009.

Retirement Benefits

1. Outline of current retirement benefit systems

The Company and its consolidated subsidiaries have adopted lump-sum retirement payment systems as their defined benefit plans.

2. Retirement benefit obligation

Thousands of Yen		
As of September 30	2008	2009
Retirement benefit obligation .....	¥ 2,021	¥ 141,085
Net unrecognized actuarial differences.....	—	(20,676)
Reserve for retirement benefit .....	¥ 2,021	¥ 120,409

3. Retirement benefit expenses

Thousands of Yen		
For the years ended September 30	2008	2009
Service expense.....	¥ 2,439	¥ 28,269
Interest expense .....	—	1,002
Retirement benefit expenses.....	¥ 2,439	¥ 29,271

For the year ended September 30, 2008

4. The Company has adopted a simplified method for the calculation of the retirement benefit obligation and for retirement benefit expenses.

For the year ended September 30, 2009

5. Assumptions used for calculation of retirement benefit obligation and expenses

2009	
Allocation method of retirement benefits to each year of service.....	Straight-line basis
Discount rate .....	0.8%
Recognition period of net actuarial difference (*) .....	6 years

(\*) Net unrecognized actuarial gain or loss is amortized by the straight-line method over certain years shorter than the estimated average years of service of the eligible employees at the point when such gain or loss was incurred, and credited or charged to income starting from the year following the year in which the gain or loss was incurred.

Tax-Effect Accounting

1. Breakdown of deferred tax assets and deferred tax liabilities by item

Thousands of Yen		
As of September 30	2008	2009
Deferred tax assets:		
Allowance for doubtful accounts.....	¥ 214,566	¥ 136,052
Accrued bonuses.....	123,871	123,995
Accrued enterprise taxes .....	61,325	34,572
Allowance for coin usage.....	255,818	326,847
Other .....	25,325	38,174
Deferred tax assets—current (subtotal) .....	680,907	659,641
Valuation allowance.....	(126,455)	(1,273)
Total deferred tax assets—current.....	554,452	658,367
Loss carried forward .....	490,743	—
Software .....	287,719	392,578
Loss on devaluation of investment securities.....	83,430	109,337
Reserve for retirement benefits .....	—	49,006
Other .....	127,373	45,635
Deferred tax assets—non-current (subtotal) .....	989,267	596,557
Valuation allowance.....	(653,837)	(146,212)
Total deferred tax assets—non-current.....	335,429	450,345
Total deferred tax assets.....	¥ 889,881	¥ 1,108,712
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities .....	(4,668)	(29,442)
Total deferred tax liabilities.....	(4,668)	(29,442)
Net deferred tax assets .....	¥ 885,213	¥ 1,079,270

2. Differences between the statutory tax rate and the effective tax rate

Thousands of Yen		
For the years ended September 30	2008	2009
Statutory tax rate.....	40.7%	40.7%
Adjustments		
Entertainment expenses and other items not deductible permanently.....	1.5	0.4
Inhabitants' per capita taxes .....	0.2	0.1
Increase (decrease) in valuation reserve.....	13.0	(2.0)
Amortization of negative goodwill .....	(0.3)	(0.1)
Loss on investments in equity-method affiliates .....	1.8	—
Exclusion of subsidiaries from the scope of consolidation .....	—	(8.8)
Loss carried forward .....	—	(21.9)
Other .....	2.0	2.5
Effective tax rate .....	58.9%	10.7%

Stock Options

For the year ended September 30, 2008

1. Stock option expenses incurred during fiscal 2008

¥16,802 thousand in stock option expenses are included as “share-based compensation” in selling, general and administrative expenses.

2. Description, size and changes in stock options

(1) Description of stock options

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 28, 1998	December 22, 2000	December 19, 2003	December 19, 2003
Resolution of Board of Directors	December 28, 1998	January 26, 2001	January 26, 2004	September 16, 2004
Name of stock option	Subscription right No. 1	Subscription right No. 3	Stock acquisition right No. 3	Stock acquisition right No. 4
Number and qualifications of individuals to be granted	The Company's directors (4) The Company's employees (15)	The Company's directors (3) The Company's employees (78)	The Company's directors (5) The Company's employees (19) Subsidiaries' directors (4) Subsidiaries' employees (14)	External partners (1)
Type and number of shares	Common stock (930)	Common stock (1,380)	Common stock (1,828)	Common stock (172)
Grant date	January 7, 1999	January 30, 2001	January 30, 2004	September 30, 2004
Vesting terms	—	—	—	—
Period of service for eligibility	—	—	—	—
Exercise period	December 29, 2000— September 30, 2008	February 1, 2001— September 30, 2010	February 1, 2004— September 30, 2009 or February 1, 2006— September 30, 2009 (Note 1)	October 1, 2004— September 30, 2009

Note 1: The exercise period depends on whether tax-qualified stock options or nonqualified stock options are chosen.

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 18, 2004	December 18, 2004	December 18, 2004	December 18, 2004
Resolution of Board of Directors	January 21, 2005	September 15, 2005	September 15, 2005	November 21, 2005
Name of stock option	Stock acquisition right No. 5-1	Stock acquisition right No. 7-1	Stock acquisition right No. 7-2	Stock acquisition right No. 8
Number and qualifications of individuals to be granted	The Company's directors (6) The Company's employees (61) Subsidiaries' directors (2) Subsidiaries' employees (9)	The Company's employees (1) Subsidiaries' directors (1)	External partners (2)	The Company's employees (34) Subsidiaries' directors (1) Subsidiaries' employees (14)
Type and number of shares	Common stock (2,398)	Common stock (60)	Common stock (40)	Common stock (262)
Grant date	January 31, 2005	September 30, 2005	September 30, 2005	November 30, 2005
Vesting terms	—	—	—	—
Period of service for eligibility	—	—	—	—
Exercise period	February 1, 2007— September 30, 2010	February 1, 2007— September 30, 2010	October 1, 2006— September 30, 2010	December 1, 2007— September 30, 2010

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 23, 2005	December 23, 2005	December 23, 2005	—
Resolution of Board of Directors	February 17, 2006	February 17, 2006	March 16, 2006	February 21, 2008
Name of stock option	Stock acquisition right No. 9-1	Stock acquisition right No. 9-2	Stock acquisition right No. 10	Stock acquisition right No. 11
Number and qualifications of individuals to be granted	The Company's directors (2) The Company's employees (209) Subsidiaries' employees (8)	External partners (1)	External partners (1)	The Company's employees (63)
Type and number of shares	Common stock (1,450)	Common stock (10)	Common stock (200)	Common stock (786)
Grant date	February 28, 2006	February 28, 2006	March 31, 2006	March 10, 2008
Vesting terms	—	—	—	Service rendered continuously from the grant date (March 10, 2008) to the rights-vesting date (March 31, 2010)
Period of service for eligibility	—	—	—	March 10, 2008— March 31, 2010
Exercise period	March 1, 2008— September 30, 2011	March 1, 2007— September 30, 2011	April 1, 2007— September 30, 2011	April 1, 2010— September 30, 2013

Note: A two-for-one stock split was implemented to common stock held by the shareholders listed on the final registers of shareholders and beneficial shareholders as of March 31, 2008. Accordingly, the number of shares to be issued for subscription rights and stock acquisition rights in the table above is those after adjustment for the said stock split.

(2) Size and changes in stock options

a. Number of stock options

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 28, 1998	December 20, 2000	December 19, 2003	December 19, 2003
Resolution of Board of Directors	December 28, 1998	January 26, 2001	January 26, 2004	September 16, 2004
Name of stock option	Subscription right No. 1	Subscription right No. 3	Stock acquisition right No. 3	Stock acquisition right No. 4
Before rights vested				
At beginning of fiscal year	—	—	—	—
Granted	—	—	—	—
Invalidated	—	—	—	—
Rights vested	—	—	—	—
Balance of unvested rights	—	—	—	—
After rights vested				
At beginning of fiscal year	54	234	890	172
Rights vested	—	—	—	—
Rights exercised	54	—	300	—
Invalidated	—	—	—	—
Balance of unexercised rights	—	234	590	172

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 18, 2004	December 18, 2004	December 18, 2004	December 18, 2004
Resolution of Board of Directors	January 21, 2005	September 15, 2005	September 15, 2005	November 21, 2005
Name of stock option	Stock acquisition right No. 5-1	Stock acquisition right No. 7-1	Stock acquisition right No. 7-2	Stock acquisition right No. 8
Before rights vested				
At beginning of fiscal year	—	—	—	214
Granted	—	—	—	—
Invalidated	—	—	—	—
Rights vested	—	—	—	214
Balance of unvested rights	—	—	—	—
After rights vested				
At beginning of fiscal year	1,726	20	40	—
Rights vested	—	—	—	214
Rights exercised	384	—	—	—
Invalidated	—	—	—	4
Balance of unexercised rights	1,342	20	40	210

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 23, 2005	December 23, 2005	December 23, 2005	—
Resolution of Board of Directors	February 17, 2006	February 17, 2006	March 16, 2006	February 21, 2008
Name of stock option	Stock acquisition right No. 9-1	Stock acquisition right No. 9-2	Stock acquisition right No. 10	Stock acquisition right No. 11
Before rights vested				
At beginning of fiscal year	1,008	—	—	786
Granted	—	—	—	—
Invalidated	—	—	—	18
Rights vested	1,008	—	—	—
Balance of unvested rights	—	—	—	768
After rights vested				
At beginning of fiscal year	—	10	200	—
Rights vested	1,008	—	—	—
Rights exercised	—	—	—	—
Invalidated	24	—	—	—
Balance of unexercised rights	984	10	200	—

Note: A two-for-one stock split was implemented to common stock held by the shareholders listed on the final registers of shareholders and beneficial shareholders as of March 31, 2008. Accordingly, the number of shares for stock options in the table above is those after adjustment for the said stock split.

b. Unit costs

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 28, 1998	December 22, 2000	December 19, 2003	December 19, 2003
Resolution of Board of Directors	December 28, 1998	January 26, 2001	January 26, 2004	September 16, 2004
Name of stock option	Subscription right No. 1	Subscription right No. 3	Stock acquisition right No. 3	Stock acquisition right No. 4
Exercise price	¥17,778	¥186,500	¥56,080	¥84,645
Average share price at time of exercise	¥238,230.77	—	¥305,103.45	—
Fair value of unit price on date of grant	—	—	—	—

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 18, 2004	December 18, 2004	December 18, 2004	December 18, 2004
Resolution of Board of Directors	January 21, 2005	September 15, 2005	September 15, 2005	November 21, 2005
Name of stock option	Stock acquisition right No. 5-1	Stock acquisition right No. 7-1	Stock acquisition right No. 7-2	Stock acquisition right No. 8
Exercise price	¥83,000	¥145,197	¥145,197	¥221,500
Average share price at time of exercise	¥272,894.74	—	—	—
Fair value of unit price on date of grant	—	—	—	—

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 23, 2005	December 23, 2005	December 23, 2005	—
Resolution of Board of Directors	February 17, 2006	February 17, 2006	March 16, 2006	February 21, 2008
Name of stock option	Stock acquisition right No. 9-1	Stock acquisition right No. 9-2	Stock acquisition right No. 10	Stock acquisition right No. 11
Exercise price	¥228,707	¥228,707	¥233,500	¥222,627
Average share price at time of exercise	—	—	—	—
Fair value of unit price on date of grant	—	—	—	¥160,512

Note: A two-for-one stock split was implemented to common stock held by the shareholders listed on the final registers of shareholders and beneficial shareholders as of March 31, 2008. Accordingly, the number of shares for stock options in the table above is those after adjustment for the said stock split.

3. Estimation method for fair value of unit price of stock options granted during fiscal 2008

(1) Calculation model applied

The Black-Scholes model

(2) Assumptions used and estimation method applied for assumptions

Volatility: 63.352%

The volatility was calculated based on actual stock prices marked during the period from May 10, 2004 to March 3, 2008.

Expected residual period: 3 years and 10 months

Since it was difficult to reasonably estimate the residual period, as sufficient data have not been accumulated yet, it was assumed that all stock options would be exercised at the middle point of their exercise periods.

Expected dividend: ¥1,500 per share

The expected dividend is based on the actual dividend paid for the fiscal year ended September 30, 2007.

Risk-free interest rate: 0.6525%

The yield of government bonds with a maturity corresponding to the expected residual period was used as the risk-free interest rate.

4. Estimation method for number of stock options vested

Since it was difficult in principle to estimate the number of stock options invalidated in future, the actual number of invalidated stock options is reflected in the estimation.

For the year ended September 30, 2009

1. Stock option expenses incurred during fiscal 2009

¥42,575 thousand in stock option expenses are included as “share-based compensation” in selling, general and administrative expenses.

2. Description, size and changes in stock options

(1) Description of stock options

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 22, 2000	December 19, 2003	December 19, 2003	December 18, 2004
Resolution of Board of Directors	January 26, 2001	January 26, 2004	September 26, 2004	January 21, 2005
Name of stock option	Subscription right No. 3	Stock acquisition right No. 3	Stock acquisition right No. 4	Stock acquisition right No. 5-1
Number and qualifications of individuals to be granted	The Company's directors (3) The Company's employees (78)	The Company's directors (5) The Company's employees (19) Subsidiaries' directors (4) Subsidiaries' employees (14)	External partners (1)	The Company's directors (6) The Company's employees (61) Subsidiaries' directors (2) Subsidiaries' employees (9)
Type and number of shares	Common stock (1,380)	Common stock (1,828)	Common stock (172)	Common stock (2,398)
Grant date	January 30, 2001	January 30, 2004	September 30, 2004	January 31, 2005
Vesting terms	—	—	—	—
Period of service for eligibility	—	—	—	—
Exercise period	February 1, 2001— September 30, 2010	February 1, 2004— September 30, 2009 or February 1, 2006— September 30, 2009 (Note 1)	October 1, 2004— September 30, 2009	February 1, 2007— September 30, 2010

Note 1 : The exercise period depends on whether tax-qualified stock options or nonqualified stock options are chosen.

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 18, 2004	December 18, 2004	December 18, 2004	December 23, 2005
Resolution of Board of Directors	September 15, 2005	September 15, 2005	November 21, 2005	February 17, 2006
Name of stock option	Stock acquisition right No. 7-1	Stock acquisition right No. 7-2	Stock acquisition right No. 8	Stock acquisition right No. 9-1
Number and qualifications of individuals to be granted	The Company's employees (1) Subsidiaries' directors (1)	External partners (2)	The Company's employees (34) Subsidiaries' directors (1) Subsidiaries' employees (14)	The Company's directors (2) The Company's employees (209) Subsidiaries' employees (8)
Type and number of shares	Common stock (60)	Common stock (40)	Common stock (262)	Common stock (1,450)
Grant date	September 30, 2005	September 30, 2005	November 30, 2005	February 28, 2006
Vesting terms	—	—	—	—
Period of service for eligibility	—	—	—	—
Exercise period	February 1, 2007— September 30, 2010	October 1, 2006— September 30, 2010	December 1, 2007— September 30, 2010	March 1, 2008— September 30, 2011

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 23, 2005	December 23, 2005	—	—
Resolution of Board of Directors	February 17, 2006	March 16, 2006	February 21, 2008	January 30, 2009
Name of stock option	Stock acquisition right No. 9-2	Stock acquisition right No. 10	Stock acquisition right No. 11	Stock acquisition right No. 12
Number and qualifications of individuals to be granted	External partners (1)	External partners (1)	The Company's employees (63)	The Company's directors (2) The Company's employees (57)
Type and number of shares	Common stock (10)	Common stock (200)	Common stock (786)	Common stock (772)
Grant date	February 28, 2006	March 31, 2006	March 10, 2008	February 17, 2009
Vesting terms	—	—	Service rendered continuously from the grant date (March 10, 2008) to the rights-vesting date (March 31, 2010)	Service rendered continuously from the grant date (February 17, 2009) to the rights-vesting date (February 28, 2011)
Period of service for eligibility	—	—	March 10, 2008— March 31, 2010	February 17, 2009— February 28, 2011
Exercise period	March 1, 2007— September 30, 2011	April 1, 2007— September 30, 2011	April 1, 2010— September 30, 2013	March 1, 2011— September 30, 2014

Note: A two-for-one stock split was implemented to common stock held by the shareholders listed on the final registers of shareholders and beneficial shareholders as of March 31, 2008. Accordingly, the number of shares to be issued for subscription rights and stock acquisition rights in the table above is those after adjustment for the said stock split.

(2) Size and changes in stock options

a. Number of stock options

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 22, 2000	December 19, 2003	December 19, 2003	December 18, 2004
Resolution of Board of Directors	January 26, 2001	January 26, 2004	September 16, 2004	January 21, 2005
Name of stock option	Subscription right No. 3	Stock acquisition right No. 3	Stock acquisition right No. 4	Stock acquisition right No. 5-1
Before rights vested				
At beginning of fiscal year	—	—	—	—
Granted	—	—	—	—
Invalidated	—	—	—	—
Rights vested	—	—	—	—
Balance of unvested rights	—	—	—	—
After rights vested				
At beginning of fiscal year	234	590	172	1,342
Rights vested	—	—	—	—
Rights exercised	8	570	172	128
Invalidated	—	20	—	10
Balance of unexercised rights	226	—	—	1,204

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 18, 2004	December 18, 2004	December 18, 2004	December 23, 2005
Resolution of Board of Directors	September 15, 2005	September 15, 2005	November 21, 2005	February 17, 2006
Name of stock option	Stock acquisition right No. 7-1	Stock acquisition right No. 7-2	Stock acquisition right No. 8	Stock acquisition right No. 9-1
Before rights vested				
At beginning of fiscal year	—	—	—	—
Granted	—	—	—	—
Invalidated	—	—	—	—
Rights vested	—	—	—	—
Balance of unvested rights	—	—	—	—
After rights vested				
At beginning of fiscal year	20	40	210	984
Rights vested	—	—	—	—
Rights exercised	—	—	—	—
Invalidated	—	—	32	28
Balance of unexercised rights	20	40	178	956

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 23, 2005	December 23, 2005	—	—
Resolution of Board of Directors	February 17, 2006	March 16, 2006	February 21, 2008	January 30, 2009
Name of stock option	Stock acquisition right No. 9-2	Stock acquisition right No. 10	Stock acquisition right No. 11	Stock acquisition right No. 12
Before rights vested				
At beginning of fiscal year	—	—	768	—
Granted	—	—	—	772
Invalidated	—	—	118	28
Rights vested	—	—	—	—
Balance of unvested rights	—	—	650	744
After rights vested				
At beginning of fiscal year	10	200	—	—
Rights vested	—	—	—	—
Rights exercised	—	—	—	—
Invalidated	—	—	—	—
Balance of unexercised rights	10	200	—	—

Note: A two-for-one stock split was implemented to common stock held by the shareholders listed on the final registers of shareholders and beneficial shareholders as of March 31, 2008. Accordingly, the number of shares for stock options in the table above is those after adjustment for the said stock split.

b. Unit costs

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 22, 2000	December 19, 2003	December 19, 2003	December 18, 2004
Resolution of Board of Directors	January 26, 2001	January 26, 2004	September 16, 2004	January 21, 2005
Name of stock option	Subscription right No. 3	Stock acquisition right No. 3	Stock acquisition right No. 4	Stock acquisition right No. 5-1
Exercise price	¥ 186,500	¥ 56,080	¥ 84,645	¥ 83,000
Average share price at time of exercise	¥ 243,000	¥ 187,800	¥ 238,300	¥ 183,022.22
Fair value of unit price on date of grant	—	—	—	—

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 18, 2004	December 18, 2004	December 18, 2004	December 23, 2005
Resolution of Board of Directors	September 15, 2005	September 15, 2005	November 21, 2005	February 17, 2006
Name of stock option	Stock acquisition right No. 7-1	Stock acquisition right No. 7-2	Stock acquisition right No. 8	Stock acquisition right No. 9-1
Exercise price	¥ 145,197	¥ 145,197	¥ 221,500	¥ 228,707
Average share price at time of exercise	—	—	—	—
Fair value of unit price on date of grant	—	—	—	—

Company name	MTI Ltd.	MTI Ltd.	MTI Ltd.	MTI Ltd.
Resolution of General Meeting of Shareholders	December 23, 2005	December 23, 2005	—	—
Resolution of Board of Directors	February 17, 2006	March 16, 2006	February 21, 2008	January 30, 2009
Name of stock option	Stock acquisition right No. 9-2	Stock acquisition right No. 10	Stock acquisition right No. 11	Stock acquisition right No. 12
Exercise price	¥ 228,707	¥ 233,500	¥ 222,627	¥ 153,200
Average share price at time of exercise	—	—	—	—
Fair value of unit price on date of grant	—	—	¥ 160,512	¥ 87,538

Note: A two-for-one stock split was implemented to common stock held by the shareholders listed on the final registers of shareholders and beneficial shareholders as of March 31, 2008. Accordingly, the exercise prices per share in the table above are those after adjustment for the said stock split.

3. Estimation method for fair value of unit price of stock options granted during fiscal 2009

(1) Calculation model applied  
The Black-Scholes model

(2) Assumptions used and estimation method applied for assumptions  
Volatility: 72.336%

The volatility was calculated based on actual stock prices marked during the period from April 18, 2005 to February 9, 2009.

Expected residual period: 3 years and 10 months

Since it was difficult to reasonably estimate the residual period as sufficient data have not been accumulated yet, it was assumed that all stock options would be exercised at the middle point of their exercise periods.

Expected dividend: ¥1,000 per share

The expected dividend is based on the actual dividend paid for the fiscal year ended September 30, 2008.

Risk-free interest rate: 0.6170%

The yield of government bonds with a maturity corresponding to the expected residual period was used as the risk-free interest rate.

4. Estimation method for number of stock options vested

Since it was difficult in principle to estimate the number of stock options invalidated in future, the actual number of invalidated stock options is reflected in the estimation.

Segment Information

a. Segment information by business category

Thousands of Yen					
2008					
	Content distribution business	Mobile advertising business	Total	Eliminations and corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to external customers.....	¥21,024,060	¥ 591,028	¥21,615,089	¥ —	¥21,615,089
(2) Inter-segment sales and transfers .....	—	88,327	88,327	(88,327)	—
Total .....	21,024,060	679,355	21,703,416	(88,327)	21,615,089
Operating expenses .....	17,944,187	1,937,356	19,881,543	7,025	19,888,569
Operating income (loss) .....	3,079,873	(1,258,000)	1,821,872	(95,353)	1,726,519
II. Total assets, depreciation and amortization and capital expenditures					
Total assets .....	¥ 7,517,218	¥ 249,615	¥ 7,766,834	¥2,992,148	¥10,758,982
Depreciation and amortization .....	398,795	189,920	588,716	71,587	660,303
Capital expenditures .....	687,160	232,536	919,696	215,814	1,135,511

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 the nature and type 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  
3. Operating expenses not allocable to any business segment and included in eliminations and corporate totaled ¥95,353 thousand and mainly consisted of depreciation in the administration divisions.  
4. Assets under eliminations and corporate included ¥2,992,148 thousand in corporate assets, consisting mainly of surplus funds (cash, deposits and securities), long-term investment funds (investment securities), and assets related to the administration divisions.

Thousands of Yen					
2009					
	Content distribution business	Mobile advertising business	Total	Eliminations and corporate	Consolidated
I. Sales and operating income					
Sales					
(1) Sales to external customers.....	¥25,264,986	¥ 467,904	¥25,732,891	¥ —	¥25,732,891
(2) Inter-segment sales and transfers .....	—	93,556	93,556	(93,556)	—
Total .....	25,264,986	561,461	25,826,447	(93,556)	25,732,891
Operating expenses .....	22,544,451	989,813	23,534,264	(14,487)	23,519,777
Operating income (loss) .....	2,720,534	(428,351)	2,292,182	(79,069)	2,213,113
II. Total assets, depreciation and amortization and capital expenditures					
Total assets .....	¥ 9,283,140	¥ 164,797	¥ 9,447,938	¥3,109,478	¥12,557,417
Depreciation and amortization .....	603,432	189,660	793,093	79,069	872,162
Capital expenditures .....	962,137	89,986	1,052,124	192,712	1,244,837

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 the nature and type 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  
3. Operating expenses not allocable to any business segment and included in eliminations and corporate totaled ¥79,069 thousand and mainly consisted of depreciation in the administration divisions.  
4. Assets under eliminations and corporate included ¥3,109,478 thousand of corporate assets, consisting mainly of surplus funds (cash and deposits), long-term investment funds (investment securities and leasehold deposits), and assets related to the administration divisions.  
5. Accounting Changes  
<Accounting for retirement benefits>  
As described in the Note “Accounting Changes,” until the previous fiscal year, the Company had adopted a simplified method for the calculation of the retirement benefit obligation. Effective October 1, 2008, the Company changed its accounting method to the principle method.  
As a result of this accounting change, operating income of the content distribution business and the mobile advertising business decreased by ¥24,511 thousand and ¥1,978 thousand, respectively, compared to what would have been under the previous accounting method.

b. Geographical segment information

There was no geographical segment information for the years ended September 30, 2008 and 2009 to be disclosed because the Company has no subsidiaries or branches in countries or regions outside Japan.

c. Overseas sales

There were no overseas sales for the years ended September 30, 2008 and 2009.

d. Related party transactions

There were no material related-party transactions to be reported for the years ended September 30, 2008 and 2009.

Corporate Mergers

For the year ended September 30, 2009

(Transaction under common control)

Merger with PicoSoft, Inc.

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:  
(1) Name and content of business combination  
Combining company  
MTI Ltd.  
Content distribution business  
Combined company  
PicoSoft, Inc.  
Business temporarily suspended  
(2) Legal form of business combination  
Absorption-type merger in which the Company was the surviving company, and PicoSoft, Inc. was dissolved. Since PicoSoft, Inc. was a wholly-owned subsidiary of the Company, there were no new shares issued and no payment upon this merger.  
(3) New name of the company after business combination  
MTI Ltd.  
(4) Overview of transactions including principal purposes  
Purposes of merger  
The Company merged with PicoSoft, Inc., since it concluded that under current circumstances there would be no opportunity to utilize PicoSoft, Inc., a temporarily suspended company, even in the process of reorganization of operations.  
Date of merger  
November 1, 2008

- 2) Overview of the accounting procedures applied:  
This merger is categorized as a transaction under common control according to “Accounting for Business Combinations” (issued by the Business Accounting Council, October 31, 2003) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007), and was completely eliminated as an internal transaction. Therefore, this accounting procedure had no effect on the consolidated financial statements.

Merger with comic.jp., inc.

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:

- (1) Name and content of business combination  
Combining company  
MTI Ltd.  
Content distribution business  
Combined company  
comic.jp., inc.  
Comic distribution business  
(2) Legal form of business combination  
Absorption-type merger in which the Company was the surviving company, and comic.jp., inc. was dissolved. Since comic.jp., inc. was a wholly-owned subsidiary of the Company, there were no new shares issued and no payment upon this merger.  
(3) New name of the company after business combination  
MTI Ltd.  
(4) Overview of transactions including principal purposes  
Purposes of merger  
The subsidiary had previously operated comic distribution business, for which the market is expected to expand in the future due to the popularization of 3.5G mobile phones. However, since the Company concluded that the comic distribution business under the direct control of the Company would result in more flexible development of its business as a whole, it resolved to merge with comic.jp., inc.  
Date of merger  
February 1, 2009

- 2) Overview of the accounting procedures applied:  
This merger is categorized as a transaction under common control according to “Accounting for Business Combinations” (issued by the Business Accounting Council, October 31, 2003) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007), and was completely eliminated as an internal transaction. Therefore, this accounting procedure had no effect on the consolidated financial statements.

Transfer of business from majiok, inc

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:  
(1) Name and content of business combination  
majiok, inc  
Auction business for mobile phones  
(2) Legal form of business combination  
A transaction under common control  
(transfer of business)

- (3) New name of the company after business combination  
MTI Ltd.
- (4) Overview of transactions including principal purposes  
Purposes of merger  
The auction business for mobile phones operated by majiok, inc was transferred to the Company, since the Company concluded placing that the mobile service business under the direct control of the Company would result in more efficient development of its business as a whole.
- Date of business transfer  
November 1, 2008

- 2) Overview of the accounting procedures applied:  
This merger is categorized as a transaction under common control according to “Accounting for Business Combinations” (issued by the Business Accounting Council, October 31, 2003) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007), and was completely eliminated as an internal transaction. Therefore, this accounting procedure had no effect on the consolidated financial statements.

**Transfer of business from movile, inc.**

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:

- (1) Name and content of business combination  
movile, inc.  
Video content streaming business for mobile phones
- (2) Legal form of business combination  
A transaction under common control (transfer of business)
- (3) New name of the company after business combination  
MTI Ltd.
- (4) Overview of transactions including principal purposes  
Purposes of merger  
The video content streaming business for mobile phones operated by movile, inc. was transferred to the Company, since the Company concluded that placing the mobile service business under the direct control of the Company would result in more efficient development of its business as a whole.
- Date of business transfer  
December 1, 2008

- 2) Overview of the accounting procedures applied:  
This merger is categorized as a transaction under common control according to “Accounting for Business Combinations” (issued by the Business Accounting Council, October 31, 2003) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007), and was completely eliminated as an internal transaction. Therefore, this accounting procedure had no effect on the consolidated financial statements.

**Per Share Data**

For the years ended September 30	2008	2009
Net assets per share:	¥39,597.06	¥50,227.79
Net income per share:	¥4,086.52	¥12,446.91
Diluted net income per share:	¥4,048.63	¥12,346.21

The Company implemented a two-for-one common stock split effective on April 1, 2008. Pro forma information of per share data for fiscal 2007 on the assumption that the said stock split had been implemented on October 1, 2006 is as follows.

For the year ended September 30	2007
Net assets per share:	¥39,510.74
Net income per share:	¥7,245.33
Diluted net income per share:	¥7,200.91

Note: The following is the calculation basis of basic net income per share and diluted net income per share.

For the years ended September 30	2008	2009
Basic net income per share		
Net income	¥563,297 thousand	¥1,669,553 thousand
Net income not available to common shareholders	—	—
Net income available to common stock	¥563,297 thousand	¥1,669,553 thousand
Weighted-average number of outstanding shares of common stock	137,843.05 shares	134,134.06 shares
Diluted net income per share		
Amount of net income adjustment	—	—
Increase in number of common stock (of which, stock acquisition rights)	1,290.04 shares (1,290.04 shares)	1,093.98 shares (1,093.98 shares)

Summary of potential shares not included in the calculation of diluted net income per share since there was no dilutive effect for the years ended September 30, 2008 and 2009:

For the years ended September 30	2008	2009
Stock acquisition rights		
Pursuant to a special resolution of the General Meetings of Shareholders held on the following dates:		
December 22, 2000: Stock acquisition rights:	117	226
December 18, 2004: Stock acquisition rights:	105	178
December 23, 2005: Stock acquisition rights:	597	1,166
Pursuant to a resolution of the Board of Directors' Meeting held on the following date:		
February 21, 2008: Stock acquisition rights:	384	650

**Significant Subsequent Event**

For the year ended September 30, 2008  
Merger with a consolidated subsidiary  
The Company merged with its consolidated subsidiary PicoSoft, Inc. effective on November 1, 2008.

(Transaction under common control)

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:
- (1) Name and content of business combination  
PicoSoft, Inc.  
Business temporarily suspended
- (2) Legal form of business combination  
A transaction under common control (absorption-type merger in which the Company was the surviving company, and PicoSoft, Inc. was dissolved)
- (3) New name of the company after business combination  
MTI Ltd.
- (4) Overview of transactions including principal purposes  
The Company merged with PicoSoft, Inc., since it concluded that under current circumstances there would be no opportunity to utilize PicoSoft, Inc., a temporarily suspended company, even in the process of future reorganization of operations.

- 2) Overview of the accounting procedures applied:  
This merger is accounted for as a transaction under common control in accordance with “Accounting for Business Combinations” (issued by the Business Accounting Council, October 31, 2003) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007).

Transfer of business  
The auction business for mobile phones operated by a consolidated subsidiary, majiok, inc, was transferred to the Company effective on November 1, 2008.

(Transaction under common control)

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:
- (1) Name and content of business combination  
majiok, inc  
Auction business for mobile phones
- (2) Legal form of business combination  
A transaction under common control (transfer of business)
- (3) New name of the company after business combination  
MTI Ltd.

- (4) Overview of transactions including principal purposes  
The auction business for mobile phones operated by majiok, inc was transferred to the Company, since the Company concluded that placing the mobile service business under the direct control of the Company would result in more efficient development of its business as a whole.

- 2) Overview of the accounting procedures applied:  
This merger is accounted for as a transaction under common control in accordance with "Accounting for Business Combinations" (issued by the Business Accounting Council, October 31, 2003) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007).

#### Transfer of business

The video content streaming business for mobile phones operated by an equity-method affiliate, movile, inc., was transferred to the Company effective on December 1, 2008.

(Transaction under common control)

- 1) Name and content of business combination, legal form of business combination, new name of the company after business combination, and overview of transactions including principal purposes:  
(1) Name and content of business combination  
movile, inc.  
Video content streaming business for mobile phones  
(2) Legal form of business combination  
A transaction under common control  
(transfer of business)  
(3) New name of the company after business combination  
MTI Ltd.  
(4) Overview of transactions including principal purposes  
The video content streaming business for mobile phones operated by movile, inc. was transferred to the Company, since the Company concluded that placing the mobile service business under the direct control of the Company would result in more efficient development of the entire business.

- 2) Overview of the accounting procedures applied  
This merger is accounted for as a transaction under common control in accordance with "Accounting for Business Combinations" (issued by the Business Accounting Council, October 31, 2003) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Implementation Guidance No. 10, with the latest revision on November 15, 2007).

#### Cancellation of treasury stocks

On November 17, 2008, the Company cancelled all treasury stocks held by the Company as of the said date. Details are as follows:

- (1) Reasons for treasury stock cancellation  
In line with its basic policy for acquired treasury stocks, the Company cancelled all of its treasury stocks.  
(2) Type of stocks cancelled  
Common stocks of the Company  
(3) Aggregate number of stocks cancelled  
3,193 stocks  
(4) Date of cancellation  
November 17, 2008

#### Merger with a consolidated subsidiary

At the Board of Directors' Meeting held on November 4, 2008 and the 13th General Meeting of Shareholders held on December 20, 2008, the Company resolved to merge with a consolidated subsidiary, comic.jp., inc., effective on February 1, 2009. Details are as follows:

- 1) Purpose of the merger  
The subsidiary currently only operates the comic distribution business, for which the market is expected to expand in future due to popularization of 3.5G mobile phones. However, since the Company concluded that the content distribution business under the direct control of the Company would result in more flexible development of its business as a whole, it resolved to merge with comic.jp., inc.  
2) Overview of the merger  
(1) Merger schedule  
Board of Directors' Meeting to approve merger contract:  
November 4, 2008  
Closing of merger contract:  
November 4, 2008  
Shareholders' Meeting approval of merger:  
December 20, 2008  
Date of merger (effective date):  
Scheduled as February 1, 2009  
Registration of merger:  
Scheduled as February 2, 2009

\* In accordance with Article 784, Clause 1 of the Japanese Corporate Law, this merger was effective without approval of the Shareholders' Meeting of comic.jp., inc.

- (2) Method of merger and company name after merger  
Absorption-type merger  
MTI Ltd.  
(3) Merger ratio and merger payments  
There were no shares issued, no increase in common stock and no payment upon this merger, due to all shares of comic.jp., inc. being held by the Company.

- 3) Overview of comic.jp., inc.  
Major business: Distribution of contents  
Sales for the recent fiscal year: ¥959,882 thousand  
Net loss: ¥626,515 thousand  
Total assets: ¥318,905 thousand  
Equity (deficit): ¥970,243 thousand  
Number of employees: 10

#### Decision regarding amounts and details of stock option compensation to directors

At the Board of Directors' Meeting held on November 4, 2008, the Company resolved to propose amounts and details of stock option compensation to be granted to directors to the 13th General Meeting of Shareholders held on December 20, 2008 for their approval. The proposal was approved at the said General Meeting of Shareholders.

- 1) Reasons for issuance of stock acquisition rights  
Stock acquisition rights will be issued to directors of the Company as their stock options, for the purpose of giving them an incentive to enhance their motivation and morale to raise the operating results and corporate value of the MTI Group.

- 2) Details of proposal  
It was proposed to issue stock acquisition rights in the form of stock options as a part of compensation to directors, to a total amount of ¥40 million or less. It was approved at the Shareholders' Meeting held on December 28, 1998 that the aggregate annual amount of directors' compensation should be ¥200 million or less (excluding the salary portion of the compensation for directors who have dual status as employees). The proposed stock option compensation shall not consist of the aforementioned aggregate annual compensation.  
The amount of the compensation provided in the form of stock options shall be calculated as the fair value per stock acquisition right calculated as of the date of stock acquisition right allotment, multiplied by the aggregate number of stock acquisition right allotted.

#### 3) Overview of stock acquisition right issuance

- (1) Allottee of stock acquisition rights  
Directors of the Company  
(except outside directors)  
(2) Type and number of shares issued for stock acquisition rights  
200 shares of common stock shall be the upper limit of shares that can be issued in exchange of stock acquisition rights issued within one year after the date of the General Meeting of Shareholders of each fiscal year.

Necessary adjustment shall be made to the aforementioned upper limit in case of stock split, reverse stock split, or other cases where the number of shares shall be altered.

- (3) Aggregate number of stock acquisition rights to be issued  
200 stock acquisition rights shall be the upper limit of the stock acquisition rights that can be issued within one year after the date of the General Meeting of Shareholders of each fiscal year. (One share shall be issued for one stock acquisition right.)

When the number of shares is adjusted as described in (2), the number of shares to be issued for one stock acquisition right shall also be adjusted.

- (4) Issue price of stock acquisition rights  
The issue price of stock acquisition rights shall be null.  
Since these stock acquisition rights are granted as incentive compensation, the issuance of such stock acquisition rights does not constitute a favorable issuance.

- (5) Amount to be paid in upon exercise of stock acquisition rights (exercise price)  
The amount to be paid in upon exercise of stock acquisition rights shall be calculated as the subscription amount per share issued or transferred upon exercise ("exercise price"), multiplied by the number of shares to be issued for a stock acquisition right.


The exercise price shall be calculated as the average of the closing price of the Company's common stock at Jasdaq Securities Exchange, Inc. marked each day (excluding days untraded) of the previous month of the allotment date multiplied by 1.05, rounded up to the nearest yen. When the price calculated as above does not equal or exceed the closing price of the previous day of the allotment date (or the latest closing price if the Company's common stock is untraded on the said day), the exercise price shall be the said closing price.

Necessary adjustment shall be made to the aforementioned exercise price in case of issuance of common stock of the Company at the issue price under its market price, as well as stock split, reverse stock split or other cases where the exercise price shall be altered.

- (6) Exercise period of stock acquisition rights  
The exercise period shall be determined at a Board of Directors' Meeting, and shall be within the period between the day after the Board of Directors' Meeting resolves details of the stock acquisition rights offering, and the day after six years from the aforementioned resolution.

- (7) Conditions for exercise of stock acquisition rights  
Holders of stock acquisition rights shall hold the position of a director, a statutory auditor or an employee of the Company or subsidiaries and affiliates of the Company at the time of exercise of their stock acquisition rights.

- (8) Conditions of offering of other stock acquisition rights  
Conditions of offering of other stock acquisition rights shall be determined and resolved at a separately held Board of Directors' Meeting.



**Ernst & Young ShinNihon LLC**  
 Hibiya Kokusai Bldg.  
 2-2-3, Uchisaiwai-cho,  
 Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100  
 Fax: +81 3 3503 1197

## Report of Independent Auditors

The Board of Directors  
MTI Ltd.

We have audited the accompanying consolidated balance sheets of MTI Ltd. and consolidated subsidiaries as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MTI Ltd. and consolidated subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

*Ernst & Young ShinNihon LLC*

December 24, 2009

A member firm of Ernst & Young Global Limited

**Corporate Data** (As of September 30, 2009)

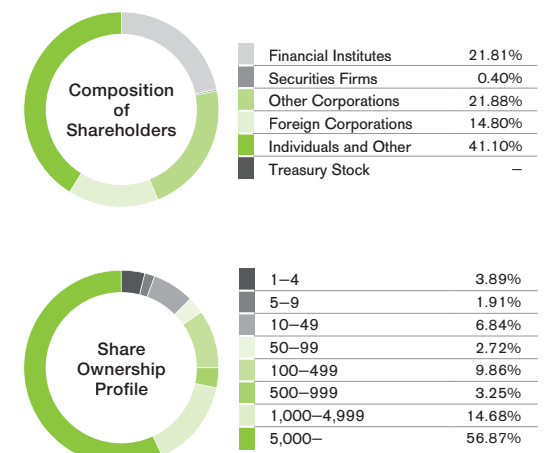
Corporate name.....	MTI Ltd.
Founded.....	August 12, 1996
Capital.....	¥2,535 million
Number of employees.....	489 (consolidated)
Main businesses.....	Content distribution business Mobile advertising business
Head office.....	35th Floor, Tokyo Opera City Tower 3-20-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-1435, Japan
MTI Group.....	TeraMobile, Inc.
URL .....	<a href="http://www.mti.co.jp/">http://www.mti.co.jp/</a>

**Common Stock** (As of September 30, 2009)

Stock code .....	9438
Listing.....	Jasdaq Securities Exchange
Number of shares authorized.....	447,600 shares
Number of shares outstanding.....	134,342 shares
Number of shareholders.....	3,269 shareholders

**Board of Directors and Corporate Auditors** (As of December 23, 2009)

President and Chief Executive Officer.....	Toshihiro Maeta
Executive Vice President .....	Hiroshi Izumi
Senior Managing Director .....	Tsuguo Takahashi
Managing Director .....	Katsunori Osawa
Managing Director .....	Toru Narita
Director .....	Tadahisa Saito
Director .....	Yoshihiro Shimizu
Director .....	Ryuichi Sasaki
Director .....	Masaya Onagi
Statutory Auditor (Standing Auditor).....	Tsutomu Minoura
Statutory Auditor.....	Kazuhiro Wada
Statutory Auditor.....	Yoshinobu Nakamura
Statutory Auditor.....	Kazuhiko Sakishima

**Breakdown of Shareholding by Investor Type** (As of September 30, 2009)**Major Shareholders** (As of September 30, 2009)

Name of shareholder	Number of shares held	Controlling share
Toshihiro Maeta	29,314	21.82%
KMC, Inc.	25,240	18.79%
Japan Trustee Service Bank, Ltd. (Trust Account)	15,200	11.31%
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,649	4.95%
The Chase Manhattan Bank, NA, London SL Omnibus Account	4,611	3.43%
Bank of New York GCM Client Account JPRD AC ISG (FE-AC)	3,660	2.72%
Trust & Custody Services Bank, Ltd. (Securities Investment Trust)	3,544	2.64%
Shobunsha Publications, Inc.	1,680	1.25%
BNP Paribas Securities Service London Jusdeck UK Residents Lending	1,590	1.18%
Trust & Custody Services Bank, Ltd. (Pension Specified Money Trust Account)	1,276	0.95%

# MTI Ltd.

35th Floor, Tokyo Opera City Tower 3-20-2  
Nishi-Shinjuku, Shinjuku-ku, Tokyo  
163-1435, Japan

