

3. Financial Condition and Results of Operations

3-1 Mobile Internet Business Climate

(1) Japanese Market

The Number of Mobile Phone Subscriptions

	Mobile phones
September 30, 2006	93.81 million

Source : The Telecommunications Carriers Association (TCA) prepared by CYBIRD

The Number of Internet-enabled Mobile Phone Subscriptions

	Mobile phones
September 30, 2006	81.59 million

Source : The Telecommunications Carriers Association (TCA) prepared by CYBIRD

The number of mobile phone subscriptions in Japan reached 93.81 million at the end of September 2006. Of this amount, the proportion of Internet-enabled handset accounts was 87.0%. The number of third generation (3G) mobile phone subscriptions at the end of September 2006 totaled 58.14 million. Third generation services are expected to be the catalyst that accelerates growth of the mobile Internet market.

Stimulated by the growing rate of mobile phones, the content market expanded to ¥315 billion in 2005, and could grow to ¥370.6 billion by 2008. In calendar 2005, the mobile commerce market grew 57%, to ¥407.4 billion compared to the previous year. Of that amount, the mobile shopping market, excluding ticket purchasing and auction fees, jumped 59%, to ¥154.2 billion compared to the previous year.

The market other than paid content is expanding rapidly by the improvement of an infrastructure and the functional diversification of handsets (FeliCa-enabled, two dimensional bar code, fingerprint authentication, etc.), the shift to carriers' fixed packet charge and the start of mobile number portability and one-segment broadcasting.

(Source: The Telecommunications Carriers Association (TCA), Mobile Content Forum, Nomura Research Institute, Ltd, MultiMedia Communications (FMMC) prepared by CYBIRD)

(2) International Market

The global number of subscribers to mobile phone services at the end of 2006 is estimated to have been approximately 2.5 billion people, and is forecast to exceed 3.5 billion by 2010. It is assumed that the number of mobile Internet users will grow as well. (Sources: IDC; Strategy Analytics prepared by CYBIRD)

3-2 Consolidated Business Results (Interim & Second Quarter)

(Interim)

(Unit: Millions of yen, Round down)

	Sales (mil. yen)	Ordinary Income (mil. yen)	Net Income (mil. Yen)	Earnings per Share (yen)	ROE (Annualized, %)	EBITDA (mil. yen)
Interim Period ended September 30, 2006	8,450	(1,945)	(2,183)	(9,440.84)	(38.5)	786
Interim Period ended September 30, 2005	6,819	64	97	448.82	1.9	241
Change	1,630	(2,010)	(2,281)	(9,889.66)	(40.4)	545

(Second Quarter)

(Unit: Millions of yen, Round down)

	Sales (mil. yen)	Ordinary Income (mil. yen)	Net Income (mil. Yen)	Earnings per Share (yen)	ROE (Annualized, %)	EBITDA (mil. yen)
2nd Quarter, FY ending March 31, 2007	4,418	(1,637)	(1,913)	(8,268.75)	(68.2)	485
2 nd Quarter, FY ended March 31, 2006	3,528	11	51	225.22	1.7	85
Change	889	(1,648)	(1,965)	(8,493.97)	(69.9)	399

Supported by continued double-digit sales growth by the Mobile Content Business, the interim non-consolidated net sales expand to ¥437 million, or 7.1%, to ¥6,567 million from the interim period last year, rising to a new record high. Similarly, interim consolidated net sales reached record levels, being forecast to grow ¥1,630 million, or 23.9% year on year, to ¥8,450 million because of additional new consolidated subsidiaries such as offshore businesses.

On a non-consolidated basis, the interim operating income surged ¥213 million, or 89.0%, from the same period in the previous fiscal year to ¥453 million based mainly on a reduction in the cost of sales in the Mobile Content Business as well as the factors contributing to the increase of net sales. Despite the additional goodwill amortization charges related to an overseas subsidiary, the interim consolidated operating income advanced substantially, improving ¥323 million, year on year, to ¥345 million.

Due to the impact of a translation loss (Note 1) regarding a transaction with an overseas subsidiary booked in the first quarter, interim ordinary income declined ¥91 million, or 31.2%, from the previous interim period to ¥202 million on a non-consolidated basis. On a consolidated basis, interim ordinary income also was affected by a ¥1,900 million loss on investment in affiliate related to stock of JIMOS CO., LTD., accounted for by the equity method at the end of the current interim period (Note 2). As a result, the Company expects to record a consolidated ordinary loss of ¥1,945 million.

On a non-consolidated basis, the Company recorded an interim loss of ¥1,946 million due to the booking of a ¥1,939 million loss on evaluation of stock of associated company related to JIMOS stock as an extraordinary loss (Note 2). The Company will also record a loss of ¥2,183 million on a consolidated basis under the impact of the consolidated ordinary loss.

Note 1: Exposure to further translation losses such as the loss on the transaction with an overseas subsidiary (translation loss on a foreign currency denominated loan made to said overseas subsidiary) has been eliminated by making a new investment in the overseas subsidiary in the first quarter and converting the old loan into shares of the overseas subsidiary.

Note 2: At the end of the interim period (September 30, 2006), JIMOS CO., LTD., was accounted for as an affiliate by the equity method. On October 1, 2006, JIMOS became a wholly owned consolidated subsidiary of the Company through an exchange of shares. Because of the marked decrease in the market price of the shares of JIMOS compared to the acquisition value on the final trading day before the end of the interim period (September 25, 2006), the Company booked an evaluation loss for the interim period in accordance with accounting standards for financial instruments on a non-consolidated basis. On a consolidated basis, the Company also posted an additional goodwill amortization expense as an investment loss on equity in affiliate.

In this manner, the evaluation loss on the stock of JIMOS, which integrated its businesses with CYBIRD's business in October, had a large impact on interim performance. However, the loss was only an accounting loss booked in accordance with accounting standards for financial instruments.

Although start up capital investments by domestic subsidiaries responsible for new businesses and goodwill amortization related to overseas subsidiaries affected consolidated performance, there was notable progress made in restructuring unprofitable subsidiaries and a great improvement in the earning power of technology-related subsidiaries.

Looking at management performance of core businesses, there is an upward trend in operating income on a non-consolidated and consolidated basis and consolidated cash flow from operating activities is forecast to increase by ¥274 million. These results indicate a steady progress in strengthening profitability driven mainly by existing businesses.

3-3 CYBIRD Group Business Results by Operation (Interim & Second Quarter)

(Interim)

(Unit: Millions of yen, Round down)

	Interim period ended September 30, 2005 (From April 1, 2005 to September 30, 2005)		Interim period ended September 30, 2006 (From April 1, 2006 to September 30, 2006)		Change	
	millions of yen	%	millions of yen	%	millions of yen	%
Mobile Content Business	5,142	75.4	5,739	67.9	597	11.6
Marketing Solution Business	1,571	23.1	1,229	14.6	(342)	(21.8)
E-Commerce Business	101	1.5	154	1.8	52	51.7
Advertising Business	1	0.0	69	0.8	68	-
Investment Business	-	-	143	1.7	143	-
International Business	2	0.0	1,113	13.2	1,110	-
Total	6,819	100.0	8,450	100.0	1,630	23.9

(Second Quarter)

(Unit: Millions of yen, Round down)

	2 nd Quarter, FY ending March 31, 2006 (From July 1, 2005 to September 30, 2005)		2 nd Quarter, FY ending March 31, 2007 (From July 1, 2006 to September 30, 2006)		Change	
	millions of yen	%	millions of yen	%	millions of yen	%
Mobile Content Business	2,615	74.1	2,866	64.9	250	9.6
Marketing Solution Business	854	24.2	686	15.5	(167)	(19.6)
E-Commerce Business	56	1.6	91	2.1	35	64.1
Advertising Business	1	0.0	38	0.9	37	-
Investment Business	-	-	143	3.2	143	-
International Business	1	0.1	591	13.4	589	-
Total	3,528	100.0	4,418	100.0	889	25.2

(1) Mobile Content Business

Similar to the previous interim period, the Mobile Content Business continued to achieve double-digit revenue growth, setting a record high on an interim basis. Consolidated net sales totaled ¥5,739 million, climbing ¥597 million, or 11.6%, year on year. Performance continued to be favorable, supported by the continued growth in subscribers to high brand-power core content, such as “Hiroyuki Ehara Spiritual Message” and “Kagami Ryuji Rensenjutsu.”

(2) Marketing Solution Business

Interim consolidated net sales of the Marketing Solution Business dropped ¥342 million, or 21.8%, year on year to ¥1,229 million. Although revenues from the operation of mobile sites of corporate clients and from technology-related subsidiaries were firm, sales declined because of such chief factors as a lower number of large site development projects compared with the interim period last year and the removal of the Company's customer support services subsidiary from consolidation.

(3) E-Commerce Business

Interim net sales of the E-Commerce Business amounted to ¥154 million, up ¥52 million, or 51.7%, from the same period in the previous fiscal year. Growth in the sales of the joint shopping site deBINGO Square begun with JIMOS CO., LTD. (See Note), in the second half of the previous fiscal year contributed to the increase in net sales. The E-Commerce Business is targeting steadily growth through various measures, such as expanding the merchandise offered on the shopping site, recommending items in accordance with consumers' grouping or preferences, and using rich media sales promotion email.

Note: In October 2006, the Company and JIMOS integrated their businesses based on a holding company structure. As a result, although JIMOS was an affiliate accounted for by the equity method during the first half of the current fiscal year, it will be accounted for as a consolidated subsidiary of the Company in the second half.

(4) Advertising Business

The Advertising Business is being developed based on PLUS MOBILE COMMUNICATIONS Co., Ltd., a development subsidiary for mobile advertising product that is a joint venture between cyber communications inc. and OPT Inc. Interim net sales amounted to ¥69 million. The business is continuing to focus on building a client base of major advertisers.

(5) Investment Business

In December 2005, the Company established CYBIRD Investment Partners Inc. as a wholly owned subsidiary for the purpose of developing its investment business. Under the management and supervision of this subsidiary, the Company set up the CYBIRD Plus Mobile Fund Investment Business Limited Partnership (See Note). The Investment Business recorded revenues of ¥143 million during the interim period under review.

Note: The fund is the first mobile business fund in Japan. It invests principally in companies that have the potential to increase the Group's corporate value based on the use of platforms or know how related to the Group's mobile Internet technology.

(6) International Business

CYBIRD began included the earnings of North America content provider Airborne Entertainment Inc., in the second half of the previous fiscal year. As a result of the subsidiary's contribution, International Business sales totaled ¥1,113 million in the interim period. Basic performance growth steadily, supported by fee-based income from such services as popular call-waiting displays with high brand power and game content. In future, the Company is expected an income contribution from Ring Back Tone (See Note) related revenues from a subsidiary of Airborne Entertainment.

Airborne Entertainment was ranked No. 4 in Deloitte's 2006 Technology Fast 500, run by Deloitte & Touche USA LLP. This table tracks companies that have achieved notable growth in the fields of technology, media, telecommunications, and life sciences over the past five years (2001 to 2005) in the United States.

Note: A service that replaces the standard ring back tone with music or voice on mobile phones.

3-4 Consolidated Income Statement

(1) Net Sales

Consolidated net income increased ¥1,630 million, or 23.9%, year on year, to ¥8,450 million. Steady sales growth in the Mobile Content Business and the inclusion of the earnings of a subsidiary in the sales of the International Business were the major factors behind the increase.

(2) Cost of Sales

Cost of sales climbed ¥1,254 million, or 54.3% from the previous first quarter to ¥3,566 million. The cost of sales ratio was 42.2%, improving 8.3 percentage points from the same period in the previous fiscal year. The major factors behind the major improvement were benefits from a revision of the production and operation costs of the Mobile Content Business and the consolidation benefits from consolidation of overseas subsidiaries that have relatively high net sales and a low cost of sales ratio.

(3) Sales, General and Administrative Expenses (“SG&A expenses”) (Interim & Second Quarter)

Major SG&A expenses were as follows;

(Interim)

(Unit: Millions of yen, Round down)

	Interim period ended September 30, 2005 (From April 1, 2005 to September 30, 2005)	Interim period ended September 30, 2006 (From April 1, 2006 to September 30, 2006)	Change	
	Millions of yen	Millions of yen	Millions of yen	%
Personnel Expenses	773	995	222	28.8
Advertisement Expenses	78	104	26	33.0
Research and Development Expenses	227	465	237	104.4
Commission Paid	800	859	58	7.3
Others	409	795	386	94.3
Total	2,290	3,221	930	40.7

(Second Quarter)

(Unit: Millions of yen, Round down)

	2 nd Quarter, FY ending March 31, 2006 (From July 1, 2005 to September 30, 2005)	2 nd Quarter, FY ending March 31, 2007 (From July 1, 2006 to September 30, 2006)	Change	
	Millions of yen	Millions of yen	Millions of yen	%
Personnel Expenses	381	467	86	22.6
Advertisement Expenses	42	59	17	42.3
Research and Development Expenses	114	234	120	104.9
Commission Paid	441	410	(30)	(7.0)
Others	202	420	218	107.9
Total	1,181	1,593	411	34.8

SG&A expenses for the interim period amounted to ¥3,221 million, rising ¥930 million, or 40.7%, year on year. This represents a 4.5 percentage point increase in SG&A to net sales ratio over the same period, to 38.1%. Among the main factors contributing to growth in SG&A expenses was the booking of goodwill amortization expenses related to the consolidation of a new subsidiary.

(4) Operating Income and Ordinary Income

Interim non-consolidated operating income rose ¥213 million, or 89.0%, year on year to ¥453 million. Sales growth, an improvement in gross profit, and effective cost control contributed to this result. Non-consolidated ordinary income, however, dropped ¥91 million, or 31.2%, from the interim period in the previous fiscal year to ¥202 million due to the posting of a non-operating expense comprised mainly of a translation adjustment loss on transactions by an overseas subsidiary that had been included in the originally business plan.

Interim consolidated operating income advanced ¥323 million, to ¥345 million despite the impact of the goodwill amortization related to the consolidation of an overseas subsidiary. Consolidated ordinary income, however, dropped ¥2,010 million compared with the previous interim period, to an ordinary loss of ¥1,945 million. Similar to non-consolidated performance, consolidated performance was affected by a translation loss and an investment loss of ¥1,900 million mainly related to the amortization of goodwill on the portion of JIMOS shares accounted for by the equity method booked at the end of the interim period.

(5) Interim Net Income

On a non-consolidated basis, the posting of an evaluation loss of ¥1,939 million on the affiliate related to the shares of JIMOS accounted for by the equity method resulted in an interim non-consolidated loss of ¥1,946 million. On a consolidated basis, the impact of the ordinary loss of ¥1,945 million resulted in an interim consolidated loss of ¥2,183 million.

3-5 Consolidated Balance Sheet

At September 30, 2006, total assets amounted to ¥16,570 million, while total liabilities were ¥5,551million. Including subscription rights and minority interests, shareholders' equity amounted to ¥11,019 million.

At September 30, 2006, investment and other assets declined substantially because of the loss taken on the shares of JIMOS that had been accounted for by the equity method.

In addition, of the price of the stock of the overseas subsidiary acquired in the previous fiscal year, the Company took out a loan equivalent to the outstanding payables of US\$20 million (¥2,357 million) at the time of their payment. Therefore, compared with the end of the previous fiscal year, accounts payables have declined and short-term debt has increased..

	Interim Period ended September 30, 2005	Interim period ended September 30, 2006
Equity ratio (%)	66.3	61.8
Equity ratio on a market value basis (%)	382.1	124.4
Debt Redemption (years)	-	5.8
Interest Coverage Ratio (times)	-	4.3

Equity ratio: shareholders' equity / total assets

Equity ratio on a market value basis: aggregate market value / total assets

Debt redemption (years): interest-bearing debt / operating cash flow

Interest coverage ratio: operating cash flow / interest payment

Note 1) For the interim period under review, the previously used shareholders' equity ratio figures have been restated as the equity ratio while the previously used shareholders' equity ratio figures have been restated as equity ratio on a market value basis.

2) Aggregate market value was calculated by using total issued and outstanding shares at the end of the period multiplied by the closing price for CYBIRD's stock on the last day of business in this interim.

3) Operating cash flow is used in the calculation of Debt Redemption and Interest Coverage Ratio. "Interest-bearing debt" includes all balance sheet debt with interest payment.

4) To provide a figure based on annualized cash flows from operating activities, Debt Redemption figures of the interim period ended September 30, 2006 have been multiplied by two.

5) Debt Redemption and Interest Coverage Ratio of the interim period ended September 30, 2006 are not mentioned due to a negative cash flow from operating activities.

3-6 Consolidated Cash Flow Statement

At the end of September 2006, cash and cash equivalents totaled ¥1,811 million, increasing by ¥113 million from the same period in the previous year. Conditions/contributing factors in each cash flow segment for this interim under

review are as follows.

(Cash flow from operating activities)

Cash flow from operating activities for the interim period increased by ¥274 million, compared with a decrease of ¥905 million in the same period in the previous fiscal year. Among the factors contributing to this result in addition to operating income of ¥345 million were depreciation expenses and goodwill amortization expenses of an overseas subsidiary of ¥441 million in total, a decline in sales receivables, an increase in procurement payables, and income tax paid of ¥324 million.

(Cash flow from investing activities)

Cash flow from investing activities decreased by ¥2,589 million compared with a decrease of ¥3,987 million in the same period in the prior fiscal year. The decline could chiefly be attributed to outstanding payables of US\$20 million (¥2,357 million) regarding the price of the stock of the overseas subsidiary acquired in the previous fiscal year.

(Cash flow from financing activities)

Cash flow from financing activities expanded ¥2,431 million compared with an increase of ¥4,429 million in the previous interim period. The increase was primarily due to the covering with a short-term loan of an outstanding payable regarding the acquisition of shares of an overseas subsidiary that was the cause of the decline in cash flow from investing activities.

3-7 Earning Forecasts

The Company announced Revision of Fiscal Earnings Forecasts on November 17, 2006.

(Consolidated)

The annual earnings forecasts for the fiscal year ending March 2007 announced on May 25, 2006 did not reflect the planned integration of the businesses of the Company and JIMOS CO., LTD. However, since consolidated earnings performances starting with the second half of the current fiscal year will fully consolidate the earnings of JIMOS, the original sales forecasts have been revised as follows.

In addition to the investment loss on the shares of JIMOS held under the equity method, the Company also plans to record an extraordinary loss on additional goodwill amortization charges on those same shares. Therefore, the fiscal consolidated operating income and net income forecasts have also been revised as follows.

(Non-consolidated)

At the time of business integration, the Company became a holding company based on a corporate split. As a result, the Company no longer books the earnings of the Mobile Content Business and its other previous main businesses. Since in addition to the extraordinary loss of ¥1,939 million booked in the interim period, the Company also intends to post an extraordinary loss regarding the JIMOS shares in the second half, expectations for the non-consolidated net sales, ordinary income, and net income figures have been revised as follows.

Consolidated Earnings Forecast

(Unit: Millions of yen)

	Net Sales	Ordinary income	Net Income
FY ending March 2007	24,450	(1,850)	(7,200)

Non-Consolidated Earnings Forecast

(Unit: Millions of yen)

	Net Sales	Ordinary income	Net Income
FY ending March 2007	7,950	50	(6,950)

The above-mentioned earnings forecasts for FY ending March 2007 are premised on information available on the announcement date, and on the assumption regarding the future results of operation, which contain risk and uncertain factors. Actual results may be affected by various factors and differ from the above-mentioned earnings forecasts.