August 12, 2010

Summary of Consolidated Financial Results for the First Quarter Ended June 2010 [Japan GAAP]

Name of Company:	Startia, Inc.
Stock Code:	3393
Stock Exchange Listing:	Tokyo Stock Exchange
URL:	http://www.startia.co.jp/
Representative:	
Title	President, Representative Director and Chief Executive Officer
Name	Hideyuki Hongo
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Date of filing quarterly report (tentative):	August 12, 2010
Date of commencement of dividend payment (tentative):	None
Supplementary materials for quarterly financial report:	None
Information meeting for quarterly financial report:	None

(Yen in millions, rounded down)

1. Financial results for the first three months of the fiscal year ending March 2011 (April 1, 2010 – June 30, 2010)

(1) Result of operations (Consolidated)

(Percentage figures represent year on year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter ended June 2010	881	14.5	(41)	-	(44)	-	(45)	-
First quarter ended June 2009	769	(32.5)	(70)	-	(66)	-	(60)	-

	Net income per share	Net income per share (diluted)
	Yen	Yen
First quarter ended June 2010	(2,118.94)	-
First quarter ended June 2009	(2,806.90)	-

(2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2010	2,318	1,315	56.8	61,108.92
As of March 31, 2010	2,543	1,363	53.6	63,709.49

Notes: Shareholders' equity

As of June 30, 2010: 1,315 million yen

As of March 31, 2010: 1,363 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2010	-	0.00	-	350.00	350.00
Fiscal year ending March 2011	-	-	-	-	-
Fiscal year ending March 2011 (est.)	-	0.00	-	537.46	537.46

Note: Change in the estimation of dividend for the fiscal year in this period: None

3. Forecast for the fiscal year ending March 2011 (Consolidated, April 1, 2010 – March 31, 2011)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	1,767	16.3	(37)	-	(37)	-	(40)	-	(1,808.81)
Full year	3,850	14.8	200	25.0	200	22.0	115	0.0	5,200.33

Note: Change in the forecast made in this period: None

4. Others

(1) Changes in significant subsidiaries
Newly included: None Excluded: None
Note: Changes in specific subsidiaries accompanied by changes in the scope of consolidation

(2) Use of simplified accounting methods and special accounting methods: None
Note: Use of simplified accounting methods and of accounting methods specifically for the preparation of consolidated quarterly financial statements

(3) Changes in accounting principles, procedures, presentation methods and other items
(a) Changes due to revision of accounting standards: Yes
(b) Changes other than in (a): None
Note: Changes in accounting principles, procedures, presentation methods and other items for preparation of the quarterly consolidated financial statements that are listed in the section titled Changes to the Basis for Presenting the Quarterly Consolidated Financial Statements.

(4) Number of shares outstanding (common stock)
(a) Shares outstanding (including treasury stock)
As of June 30, 2010: 22,144 shares As of March 31, 2010: 22,114 shares
(b) Treasury stock
As of June 30, 2010: 609 shares As of March 31, 2010: 717 shares
(c) Average number of shares (quarterly consolidated cumulative period)
Period ended June 30, 2010: 21,503 Period ended June 30, 2009: 21,429

*Information concerning quarterly review procedure
This quarterly financial report is not subject to the quarterly review procedure prescribed by the Financial Instruments and Exchange Law. The review procedure prescribed by the Financial Instruments and Exchange Law for the quarterly consolidated financial statements had not been completed when this quarterly financial report was released.

*Cautionary statement regarding forecasts of operating results and special notes
Forward-looking statements in these materials are based on information available to management at the time, this report was prepared and assumptions that management believes are reasonable. Actual results may differ significantly from these statements for a number of reasons. For information about the assumptions used for forecasts and precautions concerning the use of forecasts, please refer to “1.Results of Operations (3) Outlook for the Fiscal Year Ending in March 2011” on page 4.

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1. Results of operations

(1) Analysis of results of operations

In the first quarter, the Japanese economy remained generally weak. However, there were a number of positive signs such as a slow economic upturn backed by external demand, improving corporate earnings and declining corporate bankruptcies, and a rebound in stock prices. In addition, although companies remain cautious about capital expenditures, companies are slowly starting to become more willing to make these expenditures.

In the IT industry, which is one of the Startia Group’s key markets, there is a slow improvement in the difficult operating environment for middle-market companies and small and midsize companies caused by strict approval standards for new leases. As a result, a rebound is taking place that is not limited to replacement demand. Furthermore, there is rapid growth in awareness of electronic book (e-book) software and associated needs in the marketplace because of the popularity of Apple’s iPhone and iPad tablet, both of which incorporate a multi-touch screen.

In the previous fiscal year, the Startia Group started taking steps to build a profit structure that can be continuously profitable over the medium and long terms rather than focusing merely on short-term earnings. We analyzed profitability and growth prospects in each business sector. Based on this analysis, we determined where to allocate our resources in the future. As a result, we have made a significant shift in emphasis to service-based businesses that can generate consistent revenue streams. In the current fiscal year, even greater emphasis will be placed on this shift.

In addition, we focused on providing many proposals for services that can solve various issues for our customers, such as by cutting costs and boosting productivity. We used exhibitions, information meetings and seminars that utilized e-book production software and many other IT services and systems. The purpose was to increase IT investments and the use of IT services by companies. There were also web marketing activities in order to use “pull-based marketing” to attract more customers.

We relocated the head office because of growth in our workforce. The move resulted in a temporary increase in costs because of redundant rental expenses and other one-time items. But performance is strong in relation to progress in relation to the fiscal year forecast.

First quarter consolidated net sales were 881,049 thousand yen, 111,544 thousand yen higher than one year earlier. There was an operating loss of 41,756 thousand yen, 28,406 thousand yen smaller than one year earlier, and the net loss decreased by 14,585 thousand yen to 45,562 thousand yen.

Business segment results of operations were as follows.

[Web Solutions]
This business segment includes the planning, development and sale of Digit@Link ActiBook e-book production software, Digit@Link CMS and other web applications. Operations also include the provision of comprehensive solutions for web applications. We help customers increase sales and improve efficiency by supplying consulting for website production and increasing the number of website visits as well as outsourced system development and customization services.

ActiBook recorded a particularly strong performance. Many publishing, printing and other companies started using this product as we greatly improved ActiBook’s functions and conducted development activities for use with the iPhone and IPad.

Startia’s e-book production software has been increasing its market share. One key strength is compatibility with audio, video and other rich content. The rising market share also reflects our continuing measures to provide compatibility with a variety of e-book devices (single authoring multi-device). We have greatly increased the size of our sales team, mainly by recruiting new graduates. We are also expanding our lineup of services and upgrading training programs in order to make our services even better.

First quarter segment sales were 131,323 thousand yen and operating income was 1,798 thousand yen.

[Network Solutions]
In this business segment, we further increased activities involving managed services, which is a sector that we been strengthening since the previous fiscal year. In the network devices sector, hardware sales were much lower because companies continue to be reluctant to make capital expenditures. But there was solid growth in the number of customers using the Managed Gateway network equipment rental services. In the hosting services sector, there is steady growth in demand for IT outsourcing services. To target this demand, we provided services in a flexible manner and worked harder on establishing ties with new customers. The result was solid growth in the number of customers using our dedicated server services and Secure Samba SaaS Internet file servers.

First quarter segment sales were 282,139 thousand yen and operating income was 5,373 thousand yen.

[Business Solutions]
In this segment, the highest priority is to increase sales of multi-function office equipment within the area covered by Startia's own maintenance services. To accomplish this, we raised the efficiency of sales activities and realigned the sales organization based on sales methods. In addition, as one element of measures to deepen ties with customers from a long-term perspective, we continued to increase the staffing of our maintenance departments and extend maintenance services to more areas.

Sales of multi-function office equipment were more than 194% higher than one year earlier despite a big drop in the industry as a whole because we strengthened sales activities for color printers. As a result, there was a very large increase in the cumulative number of units in operation.

With regard to business phones, goals are attracting new customers within the above maintenance service areas and upgrading activities for selling business phones and multi-function office equipment together. We are continuing to raise the efficiency of work performed by technology departments.

We perform subscription registration services on behalf of Softbank Telecom Partners Inc. for the OTOKU Line telephone service of Softbank Telecom Corp. These services include the distribution of registration information, performance of registration procedures, on-site investigations and other tasks required to register new customers. There was a strong performance regarding signing up new customers even though a large number of sales people were transferred to the Internet media content business. Revenue received in proportion to communication fees paid by all customers that we have registered was higher.

First quarter segment sales were 467,586 thousand yen and the operating loss was 42,024 thousand yen.

(2) Analysis of financial condition

1) Assets, liabilities and net assets

a. Assets
   Total assets were 2,318,387 thousand yen at the end of the first quarter, 224,802 thousand yen less than at the end of the previous fiscal year. Major changes include a 28,297 thousand yen increase in property, plant and equipment and decreases of 43,811 thousand yen in cash and deposits, 153,183 thousand yen in accounts receivable-trade and 4,564 thousand yen in intangible assets.

b. Liabilities
   Total liabilities decreased 177,591 thousand yen to 1,002,407 thousand yen. Major changes include decreases of 24,645 thousand yen in accounts payable-trade, 38,738 thousand yen in income taxes payable and 58,200 thousand yen in long-term loans payable.

c. Net assets
   Net assets decreased 47,211 thousand yen to 1,315,980 thousand yen. This was attributable mainly to the first quarter net loss of 45,562 thousand yen, dividends of 7,488 thousand yen paid in accordance with a resolution approved at the shareholders meeting, and disposal of treasury stock of 3,040 thousand yen.

2) Cash flows
Cash and cash equivalents were 1,167,946 thousand yen at the end of the first quarter, a net increase of 153,230 thousand yen, or 15.1%, from the end of the previous fiscal year. The following is a summary of first quarter cash flows by category.

a. Operating activities
   Net cash provided by operating activities was 116,115 thousand yen compared with a negative cash flow of 22,232 thousand yen one year earlier. Cash was provided by a 155,249 thousand yen decrease in notes and accounts receivable-trade but cash was used by a 24,645 thousand yen decrease in notes and accounts payable-trade and income taxes paid of 44,154 thousand yen.

b. Investing activities
   Net cash used in investing activities was 83,437 thousand yen compared with a positive cash flow of 11,370 thousand yen one year earlier. There were payments of 53,767 thousand yen for purchase of noncurrent assets and 20,000 thousand yen for purchase of investments in securities.

c. Financing activities
   Net cash used in financing activities was 76,489 thousand yen compared with 52,205 thousand yen one year earlier. Repayments of 74,866 thousand yen for long-term loans payable were the major use of cash.

(3) Outlook for the fiscal year ending in March 2011

Achieving even greater customer satisfaction is the highest priority of the Startia Group. One way to increase satisfaction is introducing new products and services. In addition, as in the previous fiscal year, we are continuing to deepen relationships with current customers by expanding our lineup, including the provision of a “single-billing” solution that combines many services in a single invoice. Furthermore, we have established the goal of making the current fiscal year a period for achieving the greatest upgrade in service-based business sales activities in our history. We aim to build a more powerful profit structure from a medium to long-term stance rather than for short-term profits.

Since first quarter sales and earnings were generally strong as in our forecasts, we are making no revisions at this time to the consolidated forecasts that were announced on May 14, 2010.

Forecasts are based on the judgments of management in accordance with information that is currently available. Consequently, investors are asked to refrain from reaching investment decisions based solely on the information in this document. In addition, actual results of operations may differ from these forecasts for a number of reasons.

2. Other information

(1) Changes in significant subsidiaries: None

(2) Simplified accounting methods and special accounting methods: None

(3) Changes in accounting principles, procedures, presentation methods and other items:
1) Changes in accounting methods
1. Application of “Accounting Standard for Equity Method of Accounting for Investments” and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method”
Starting with the first quarter of the fiscal year ending on March 31, 2011, “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No. 24, March 10, 2008) have been applied. This change had no effect on figures in the first quarter consolidated financial statements.

2. Application of “Accounting Standard for Asset Retirement Obligations”
Starting with the first quarter of the fiscal year ending March 31, 2011, “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) have been applied. This change increased the operating loss and ordinary loss by 1,139 thousand yen each and increased the loss before income taxes and minority interests by 2,925 thousand yen.

2) Change in presentation method
(Quarterly consolidated statement of income)
Based on “Accounting Standard Concerning Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), “Cabinet Office Ordinance Partially Revising Regulation for Terminology, Form and Preparation Methods of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009) has been applied. As a result, the “income (loss) before minority interests” item is included in the statement of income.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheet

(thousand yen)

	As of June 30, 2010	As of March 31, 2010
Assets		
Current assets		
Cash and deposits	1,172,959	1,216,770
Accounts receivable-trade	450,971	604,154
Raw materials and supplies	15,179	15,157
Others	123,612	195,351
Allowance for doubtful accounts	(28,773)	(26,477)
Total current assets	1,733,950	2,004,956
Noncurrent assets		
Property, plant and equipment	93,211	64,914
Intangible assets		
Goodwill	75,583	84,333
Others	118,963	114,777
Total intangible assets	194,546	199,110
Investments and other assets	296,679	274,209
Total noncurrent assets	584,437	538,234
Total assets	2,318,387	2,543,190
Liabilities		
Current liabilities		
Accounts payable-trade	222,575	247,220
Current portion of long-term loans payable	282,806	299,472
Income taxes payable	1,845	40,583
Provision for bonuses	33,607	81,617
Others	226,572	217,905
Total current liabilities	767,407	886,798
Noncurrent liabilities		
Long-term loans payable	235,000	293,200
Total noncurrent liabilities	235,000	293,200
Total liabilities	1,002,407	1,179,998
Net assets		
Shareholders' equity		
Capital stock	418,272	416,960
Capital surplus	403,272	401,960
Retained earnings	529,647	585,739
Treasury stock	(35,414)	(41,695)
Total shareholders' equity	1,315,777	1,362,963
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	203	228
Total valuation and translation adjustments	203	228
Total net assets	1,315,980	1,363,191
Total liabilities and net assets	2,318,387	2,543,190

(2) Quarterly consolidated statements of income

(thousand yen)

	April 1, 2009 – June 30, 2009	April 1, 2010 – June 30, 2010
Net sales	769,505	881,049
Cost of sales	369,080	409,909
Gross profit	400,424	471,139
Selling, general and administrative expenses	470,588	512,896
Operating income (loss)	(70,163)	(41,756)
Non-operating income		
Gain on forgiveness of debts	1,967	3,628
Equity in earnings of affiliates	3,245	-
Interest income	-	51
Others	159	236
Total non-operating income	5,372	3,916
Non-operating expenses		
Equity in losses of affiliates	-	4,249
Interest expenses	1,790	1,989
Others	3	-
Total non-operating expenses	1,794	6,238
Ordinary income (loss)	(66,586)	(44,079)
Extraordinary income		
Reversal of allowance for doubtful accounts	360	-
Gain on sales of investment securities	549	-
Total extraordinary income	910	-
Extraordinary loss		
Loss on retirement of noncurrent assets	24	15
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	1,786
Total extraordinary loss	24	1,801
Income (loss) before income taxes	(65,700)	(45,880)
Income taxes-current	1,184	364
Income taxes-deferred	(6,736)	(682)
Total income taxes	(5,552)	(318)
Income (loss) before minority interests	-	(45,562)
Net income (loss)	(60,148)	(45,562)

(3) Quarterly consolidated statements of cash flows

(thousand yen)

	April 1, 2009 – June 30, 2009	April 1, 2010 – June 30, 2010
Net cash provided by (used in) operating activities		
Income (loss) before income taxes	(65,700)	(45,880)
Depreciation and amortization	26,533	29,322
Increase (decrease) in allowance for doubtful accounts	(3,117)	2,295
Increase (decrease) in provision for bonuses	(20,346)	(48,009)
Interest and dividends income	-	(51)
Interest expenses	1,790	1,989
Equity in (earnings) losses of affiliates	(3,245)	4,249
Loss (gain) on sales of investment securities	(549)	-
Loss on retirement of property, plant and equipment	24	15
Loss on adjustment for changes of accounting standard for asset retirement obligations	-	1,786
Decrease (increase) in notes and accounts receivable-trade	141,143	155,249
Decrease (increase) in inventories	2,841	(22)
Increase (decrease) in notes and accounts payable-trade	(95,996)	(24,645)
Increase (decrease) in accounts payable-other	(18,823)	(10,105)
Increase (decrease) in accrued consumption taxes	(22,568)	(1,548)
Others	84,076	97,446
Sub-total	26,062	162,090
Interest expenses paid	(1,689)	(1,820)
Income taxes paid	(46,605)	(44,154)
Net cash provided by (used in) operating activities	(22,232)	116,115
Net cash provided by (used in) investment activities		
Purchase of noncurrent assets	(26,168)	(53,767)
Collection of loans receivable	48,000	-
Payments for guarantee deposits	(179)	(3,315)
Proceeds from collection of guarantee deposits	450	1,379
Purchase of stocks of subsidiaries and affiliates	(30,000)	-
Proceeds from sales of investments in subsidiaries	25,250	-
Purchase of investment securities	-	(20,000)
Proceeds from sales of investment securities	750	-
Others	(6,731)	(7,733)
Net cash provided by (used in) investing activities	11,370	(83,437)
Net cash provided by (used in) financing activities		
Repayment of long-term loans payable	(45,666)	(74,866)
Proceeds from exercise of stock option	-	2,625
Cash dividends paid	(7,499)	(7,488)
Proceeds from disposal of treasury stock	960	3,240
Net cash provided by (used in) financing activities	(52,205)	(76,489)
Net increase (decrease) in cash and cash equivalents	(63,067)	(43,811)
Cash and cash equivalents at beginning of period	1,077,783	1,211,757
Cash and cash equivalents at end of period	1,014,716	1,167,946

(4) Notes to ongoing concern assumptions

None

(5) Segment information

[Operating segment information]

For the first three months ended June 2009 (April 1, 2009 - June 30, 2009) (thousand yen)

	Internet Media Content Business	Solutions Business	Office Support Business	Communication Subscription Services Business	Total	Eliminations or Corporate	Consolidated
I. Net sales							
(1) Sales to external customers	76,539	257,892	364,119	70,954	769,505	-	769,505
(2) Inter-segment sales and transfers	10,875	32,857	26,095	6,089	75,918	(75,918)	-
Total	87,414	290,749	390,215	77,043	845,423	(75,918)	769,505
Operating income (loss)	(1,277)	(14,174)	(37,283)	(15,748)	(68,484)	(1,679)	(70,163)

Notes:

1. Business segments are based on categories used for internal management.
2. Major products in each business segment

Business segment	Major activities
Internet Media Content Business	Software for making e-books, sales of CMS and other web applications, outsourced production and development for the Internet, consulting to increase website visits, and other activities
Solutions Business	Operation and maintenance for rental business for servers needed for websites and e-mail, sale of network equipment and other data communications products, brokerage for Internet service providers, and other activities
Office Support Business	Sales of business phones, multi-function office equipment and office furniture, consulting for office layouts for ideal communication environments, and other activities
Communication Subscription Services Business	Provision of subscription services outsourced by telecommunications carriers, including fiber-optic and OTOKU Line telephone services, to earn incentive fees from these carriers

[Geographical segment information]

For the first three months ended June 2009 (April 1, 2009 - June 30, 2009)

No information is provided because there are no foreign subsidiaries and significant foreign branches.

[Overseas sales]

For the first three months ended June 2009 (April 1, 2009 - June 30, 2009)

No information is provided because there are no overseas sales.

[Segment information]
(supplementary information)
Starting with the first quarter of the fiscal year ending March 31, 2011, “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, March 27, 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008) have been applied.

1. Overview of reportable segments
Segments used for financial reporting are the Company’s constituent units for which separate financial information is available and for which the board of directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

Startia has business units for individual products and services at its head office and subsidiaries. Each business unit creates comprehensive strategies for each business site for products and services that are handled and conducts business activities.

Consequently, the operations of Startia are divided into business segments based on sales frameworks for individual products and services. There are three reportable segments: Web Solutions, Network Solutions and Business Solutions.

Web Solutions includes e-book production software, sales of CMS and other web applications, outsourced production and development for the web, consulting to increase website visits, and other activities.

Network Solutions includes the rental and maintenance of servers required for web and e-mail operations, the sale of network equipment and other information and communications equipment, Internet service provider brokerage services, and other activities.

Business Solutions includes business phone and multi-function office equipment sales, office layouts that create good communication environments, and a registration agency for fiber-optic, OTOKU Line and other services that earn incentive fees from communication carriers, and other activities.

2. Sales and income (loss) for reportable segments
For the first three months ended June 2010 (April 1, 2010 - June 30, 2010) (thousand yen)

	Reportable segments				Adjustment *1,*2	Amount on statement of income *3
	Web Solutions	Network Solutions	Business Solutions	Total		
I. Net sales						
(1) Sales to external customers	131,323	282,139	467,586	881,049	-	881,049
(2) Inter-segment sales and transfers	303	22,902	70,381	93,587	(93,587)	-
Total	131,626	305,041	537,968	974,636	(93,587)	881,049
Segment income (loss)	1,798	5,373	(42,024)	(34,852)	(6,904)	(41,756)

Notes:
1. The adjustment for intersegment sales and transfers is a deduction of 93,587 thousand yen for intersegment transactions.
2. The segment income adjustment of negative 6,904 thousand yen is the sum of a 479 thousand yen deduction for intersegment transactions and corporate expenses that cannot be allocated to any segment of 7,383 thousand yen.
3. The total segment loss matches the operating loss on the quarterly consolidated statement of income.

(6) Notes to significant change in shareholders’ equity
None