

# AQ INTERACTIVE Inc.

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## Business Results for the Third Quarter of Fiscal Year Ending March 2011



February 17, 2011

# Company Profile (As of December 31, 2010)



- Company : AQ INTERACTIVE Inc.
- Address : Hitachi Solutions Tower B, 4-12-6 Higashi-Shinagawa, Shinagawa-ku, Tokyo 140-0002 Japan
- Founded : March 1, 2000
- Capital Stock : ¥3.2 Billion
- President & CEO : Shuichi Motoda
- Fiscal Year Month : March
- No. of Shares Issued : 54,495 Shares
- Number of Employees : 329 (Consolidated)
- Business Description : Planning, developing and marketing/sales of game software
- URL : <http://www.aqi.co.jp>
- 6 Consolidated Subsidiaries : ARTOON Co.,Ltd., cavia inc., feelplus Inc., XSEED JKS, INC., MICRO CABIN INC.,\* LINKTHINK INC.

\*As of the fourth quarter, MICROCABIN CORP. is no longer a consolidated subsidiary due to a stock transfer made in January 14, 2011.

# Corporate History

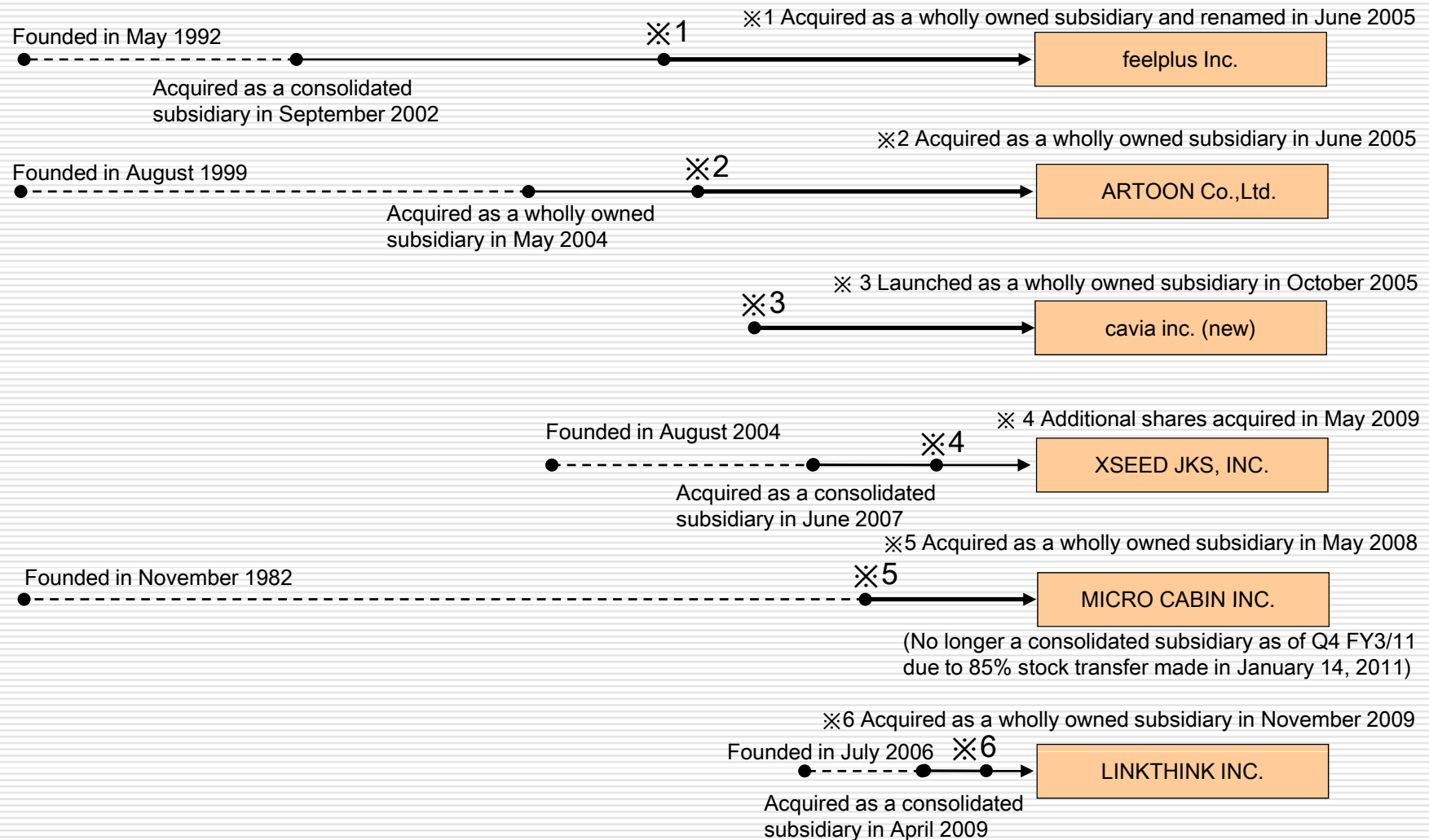


Founded in March 2000

Corporate Name Changes in October 2005

cavia inc. (currently AQ INTERACTIVE Inc.)

AQ INTERACTIVE Inc.



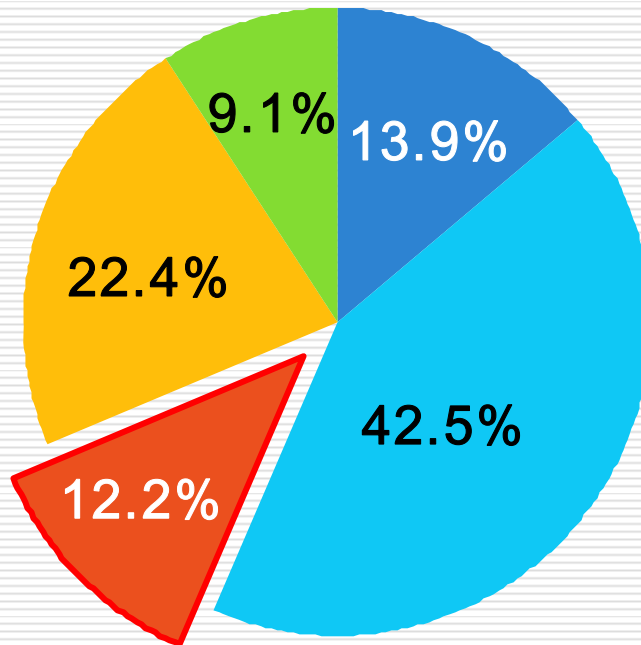
# Group Business Description



< Sales Breakdown >

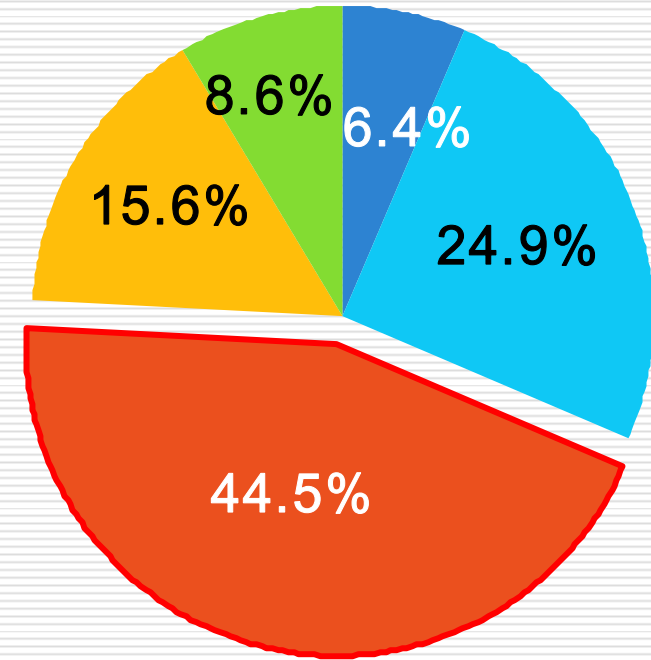
Consumer Game Division / Proprietary Sales
Consumer Game Division / Commissioned Projects Sales
Network Content Division
Arcade Game Division / Proprietary Sales
Arcade Game Division / Commissioned Projects Sales

FY3/10 Actual



Net Sales: ¥7,197 Billion

Q3 FY3/11 Actual



Net Sales: ¥5.460 Billion

- Armed with the brand strength of our technological expertise in consumer game development, we have marketed entertainment content across a broad range of outlets.
- By concentrating our business resources in developing network content, which we view as the next area of growth, we aim to emerge as a top player in that area.

# Business Results for Q3 FY3/11

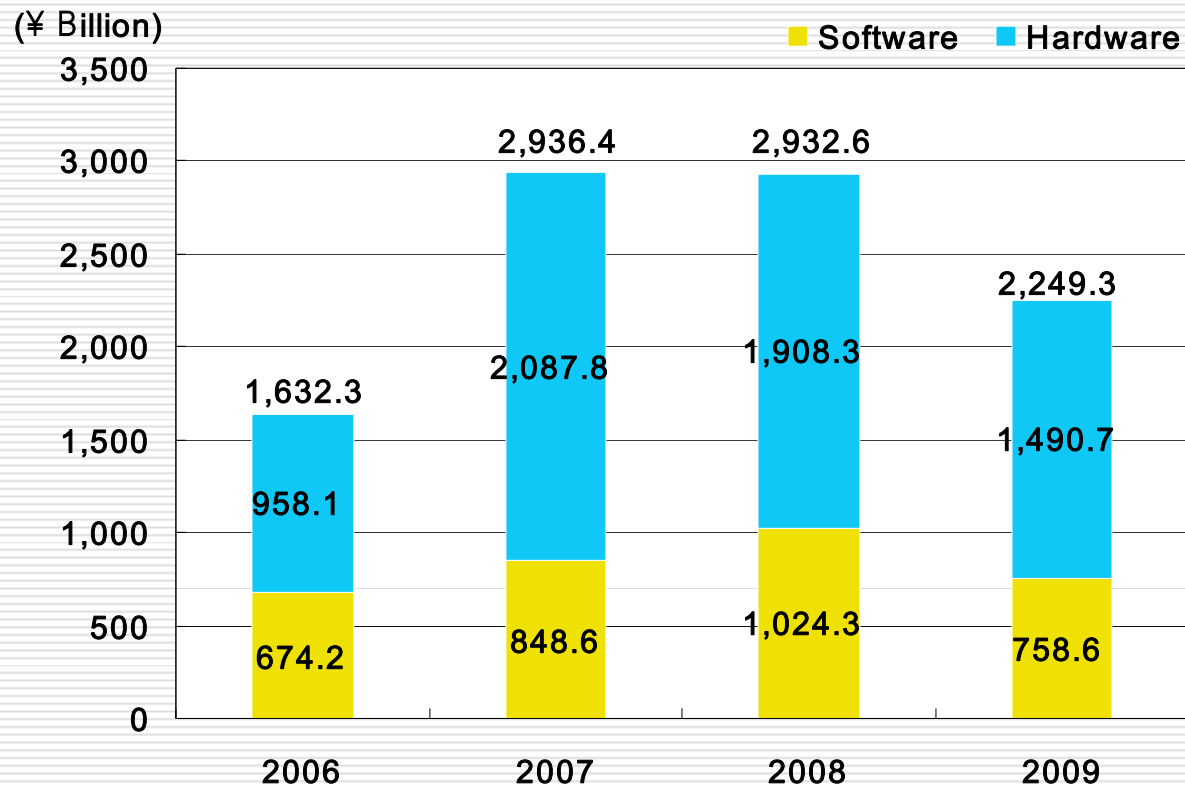
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# Global Trend of Home Game Software Market



While the software market for home computer games has been contracting, we expect NINTENDO 3DS, which was released on February 26, and NGP, or next-generation PSP, which should be unveiled at the year-end, will generate greater demand.

### Global Shipment Value of Home Game Software



Source: CESA Game White Book

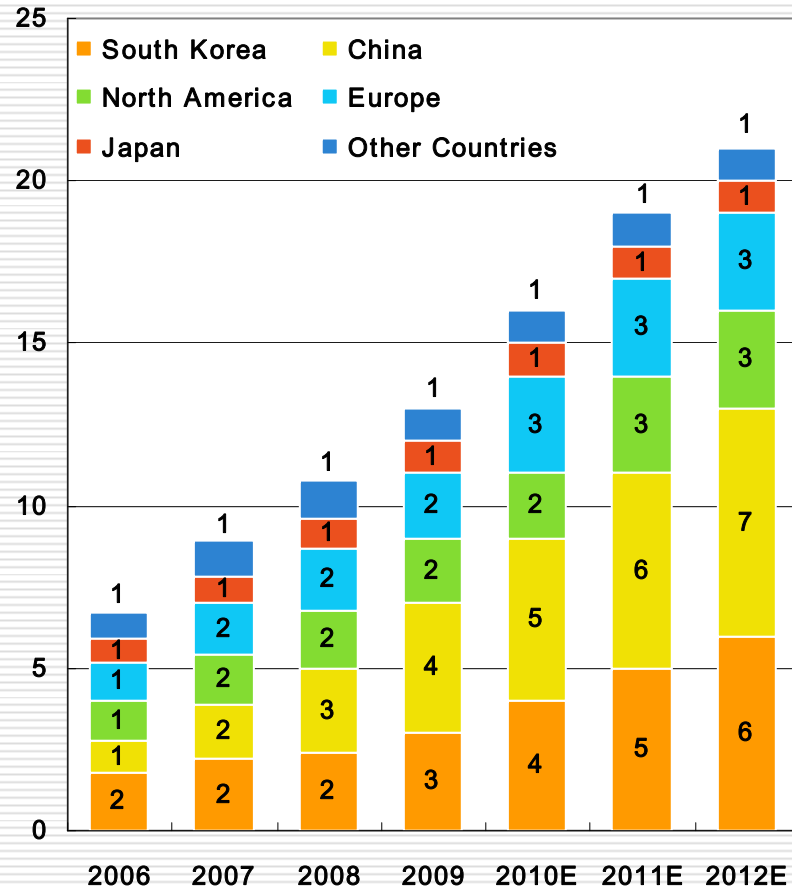
# Trends in Online Game Market



Global: Online game market is growing, led by demand in Asia

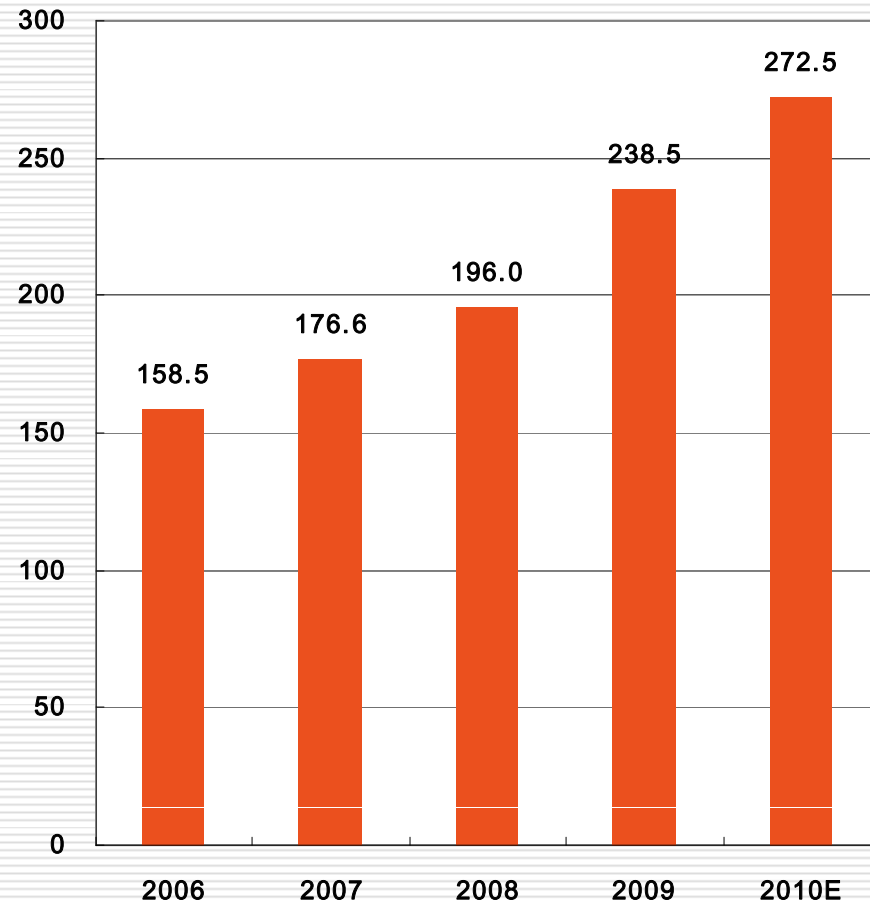
Domestic: Growth is expected from games developed for social networking services and the next generation of multifunctional smart phones.

(US\$ Billion) Global Online Game Market Growth



Source: Game White Paper 2010, Ministry of Culture, Korea

(¥ Billion) Domestic Online Game Market Growth



Source: Fami-tsu Game White Paper

# Cumulative Results for Q3 FY3/11



## Net Sales

- Robust network content sales drives up overall performance

## Operating Income

- Contribution from network content division was significant
- A number of titles under development were posted as cost of sales (¥△482 million), Posted provision for bad debt as a result of U.S. subsidiary's delayed debt recovery (¥△40 million)

## Net Income

- Posted losses from cancellation of several titles (¥△157 million)
- Special retirement payout (¥△66 million)

(¥ Million)	Q1-3 FY3/10		Q1-3 FY3/11		YoY Change	FY3/11 Forecast		YTD
Net Sales	4,369	100%	5,460	100%	1,091	6,959	100%	78.5%
Gross Profit	1,203	27.5%	2,668	48.9%	1,465	3,500	50.3%	76.2%
SG&A	1,855	42.5%	1,805	33.1%	△ 50	2,450	35.2%	73.7%
Operating Income	△ 652	-	862	15.8%	1,514	1,050	15.1%	82.1%
Ordinary Income	△ 659	-	820	15.0%	1,479	1,000	14.4%	82.0%
Pretax Profit	△ 716	-	595	10.9%	1,311	1,000	14.4%	59.5%
Net Income	△ 767	-	316	5.8%	1,083	500	7.2%	63.2%

\*Pretax profit forecast revision made on February 23, 2011



# Cumulative Results for Q3 FY3/11 by Division



(¥ Million)	Q1-3 FY3/10		Q1-3 FY3/11		YoY	FY3/11 Forecast		YTD
Consumer Game Division	2,508	57.4%	1,709	39.1%	△ 799	2,359	30.4%	72.4%
Network Content Division	223	5.1%	2,430	55.6%	2,207	3,130	42.0%	77.6%
Arcade Game Division	1,637	37.5%	1,320	30.2%	△ 317	1,470	27.5%	89.8%
<b>Net Sales</b>	<b>4,369</b>	<b>100.0%</b>	<b>5,460</b>	<b>124.9%</b>	<b>1,091</b>	<b>6,959</b>	<b>100.0%</b>	<b>78.5%</b>
Consumer Game Division	△ 441	-	△ 102	-	339	△ 142	1.6%	71.8%
Network Content Division	△ 58	-	1,263	-	1,321	1,643	19.7%	76.9%
Arcade Game Division	225	-	153	-55.8%	△ 72	153	2.0%	100.0%
<b>Divisional Income</b>	<b>△ 274</b>	<b>-</b>	<b>1,315</b>	<b>-55.8%</b>	<b>1,589</b>	<b>1,654</b>	<b>23.3%</b>	<b>79.5%</b>
Shared SG & A	377	-	452	-	75	604	8.1%	74.8%
Operating Income	△ 652	-	862	-	1,514	1,050	15.2%	82.1%
Ordinary Income	△ 659	-	820	-	1,479	1,000	14.5%	82.0%
Net Income	△ 767	-	316	-	1,083	500	7.2%	63.2%

# Quarterly Results by Division



<Reference>

(¥ Million)	Q1 FY3/10		Q2 FY3/10		Q3 FY3/10		Q4 FY3/10		Q1 FY3/11		Q2 FY3/11		Q3 FY3/11		Q4 FY3/11(Fcst.)		Q1-3 FY3/11		FY3/11(Fcst.)	
	Consumer Game Division	366	47.9%	1,382	64.5%	760	52.0%	1,548	54.7%	404	25.3%	659	32.9%	645	34.7%	650	43.3%	1,709	31.3%	2,359
Network Content Division	4	0.5%	33	1.5%	185	12.7%	652	23.1%	776	48.6%	818	40.9%	835	44.9%	700	46.7%	2,430	44.5%	3,130	45.0%
Arcade Game Division	393	51.4%	727	33.9%	516	35.3%	627	22.2%	416	26.1%	523	26.1%	380	20.4%	150	10.0%	1,320	24.2%	1,470	21.1%
Net Sales	764	100%	2,143	100%	1,461	100%	2,828	100%	1,596	100%	2,001	100%	1,861	100.0%	1,500	100.0%	5,460	100.0%	6,959	100.0%
Consumer Game Division	△ 344	-	△ 56	-	△ 40	-	308	10.9%	△ 120	-	85	4.2%	△ 67	-3.6%	△ 40	-2.7%	△ 102	-1.9%	△ 142	-2.0%
Network Content Division	△ 37	-	△ 39	-	18	1.2%	383	13.5%	473	29.6%	449	22.4%	341	18.3%	380	25.3%	1,263	23.1%	1,643	23.6%
Arcade Game Division	△ 88	-	263	12.3%	50	3.4%	148	5.2%	47	2.9%	106	5.3%	0	0.0%	0	0.0%	153	2.8%	153	2.2%
Divisional Profit	△ 471	-	167	7.8%	29	2.0%	840	29.7%	400	25.1%	640	32.0%	273	14.7%	340	22.7%	1,315	24.1%	1,654	23.8%
Shared SG&A	122	16.0%	111	5.2%	161	11.0%	130	4.6%	156	9.8%	145	7.2%	151	8.1%	152	10.1%	452	8.3%	604	8.7%
Operating Income	△ 593	-	55	2.6%	△ 132	-	728	25.7%	244	15.3%	495	24.7%	123	6.6%	188	12.5%	862	15.8%	1,050	15.1%
Ordinary Income	△ 594	-	41	1.9%	△ 124	-	740	26.2%	221	13.8%	475	23.7%	123	6.6%	180	12.0%	820	15.0%	1,000	14.4%
Net Income	△ 555	-	141	6.6%	△ 353	-	825	29.2%	84	5.3%	152	7.6%	78	4.2%	185	12.3%	316	5.8%	500	7.2%

# Consolidated Balance Sheets for Q3 FY3/11



## ■ Current assets

- Surplus cash invested in marketable securities
- Amortization of several titles under development led to reduced inventory

(¥ Million)		Mar.31, 2010		Dec.31, 2010		YoY Change	Dec.31, 2009	
	Cash and Deposits	2,582	33.2%	2,789	35.1%	344	2,445	35.4%
	Notes and accounts receivable	2,141	27.5%	1,492	18.8%	243	1,249	18.1%
	Marketable securities	38	0.5%	1,293	16.3%	1,293	0	0.0%
	Inventory	1,058	13.6%	694	8.7%	△ 569	1,263	18.3%
	Current assets	6,377	82.0%	6,650	83.6%	1,119	5,531	80.2%
	Fixed assets	1,403	18.0%	1,300	16.4%	△ 69	1,369	19.8%
	<b>Total assets</b>	<b>7,780</b>	<b>100.0%</b>	<b>7,951</b>	<b>100.0%</b>	<b>1,051</b>	<b>6,900</b>	<b>100.0%</b>
	Current liabilities	1,186	15.2%	1,107	13.9%	△ 34	1,141	16.5%
	Noncurrent liabilities	169	2.2%	194	2.4%	21	173	2.5%
	Total liabilities	1,356	17.4%	1,301	16.4%	△ 14	1,315	19.1%
	Total net assets	6,424	82.6%	6,649	83.6%	1,064	5,585	80.9%
	<b>Total liabilities and net assets</b>	<b>7,780</b>	<b>100.0%</b>	<b>7,951</b>	<b>100.0%</b>	<b>1,051</b>	<b>6,900</b>	<b>100.0%</b>

# Consolidated Cash Flows for Q3 FY3/11



- Cash flows from operating activities : Increase from income before taxes and income tax return (¥1,975 million); decrease in notes and accounts receivable-trade (¥612 million); increase from income tax return and others (¥128 million)
- Cash flows from investing activities : Reduced due to transfer of surplus cash to fixed deposit (¥△1,500 million) and acquisition of investment securities (¥△1,277 million)
- Cash flows from financing activities : Reduced due to decline in short-term borrowings (¥△133 million) and from dividend payments (¥△80 million)

(¥ Million)	Q1-3 FY3/10	Q1-3 FY3/11	YoY Change
Cash flows from operating activities	△ 528	1,975	2,503
Cash flows from investing activities	△ 366	△ 2,646	△ 2,280
Free cash flow	△ 894	△ 671	223
Cash flows from financing activities	67	△ 216	△ 283
Cash and cash equivalents, end of term	2,345	1,587	△ 758

# Consumer Game Division: Q3 FY3/11 Cumulative Results



## Net Sales

- Proprietary Sales: 3 titles for North American market
- Commissioned Projects Sales: Steady progress after acquiring new contract from major domestic publisher

## Divisional Income

Despite having to post cost of sales for several titles under development (¥△288 million) and a bad debt provision following XSEED JKS, INC.'s delayed debt recovery (¥△40 million), we managed to substantially reduce our deficit balance from the previous term as a result of cost reductions gained through structural reforms.

(¥ Million)	Q1-3 FY3/10		Q1-3 FY3/11		YoY	FY3/11 Forecast		YTD
Proprietary Sales Segment	605	24.1%	346	20.2%	△ 259	535	22.7%	64.7%
Commissioned Projects Segment	1,903	75.9%	1,362	79.7%	△ 541	1,824	77.3%	74.7%
Net Sales	2,508	100%	1,709	100%	△ 799	2,359	100%	72.4%
Divisional Income	△ 441	-17.6%	△ 102	-6.0%	339	△ 142	-6.0%	71.8%

# Consumer Game Division: Business Strategy



## Preparations for business operations and future growth compatible with market environment

- Secure profitability through structural reforms. Aggressively amortize development costs for future titles (¥△288 million).
- Given current market environment, will continue focus on securing projects commissioned from major publishers for foreseeable future. Marshal strength while establishing credibility and track record
- Strengthen project proposal and presentation expertise to win commissions for larger projects
- Begin developing titles sold through proprietary sales channels for new hardware (Nintendo 3DS)
  - “Cubic Ninja” to be released on April 7, 2011
  - “Animal Resort” slated for release in spring 2011

Note: “Animal Resort” is being co-developed with Marvelous Entertainment Inc.



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# Network Content Division: Q3 FY3/11 Cumulative Results



## Net Sales

- “Browser Sangokushi (Romance of the Three Kingdoms)” continued to post strong sales after increasing items to be sold and enhancing degree of excitement
- Opened new channel to broaden user-membership base to include existing and new customers

## Divisional Income

Posted amortized software expenses (¥△139 million) related to development costs of “Derby Master” and titles for iPhone to address possible decline in future profits

(¥ Million)	Q1-3 FY3/10		Q1-3 FY3/11		YoY	FY3/11 Forecast		YTD
Network Content Division Sales	223	100%	2,430	100%	2,207	3,130	100%	77.6%
Divisional Income	△ 58	-	1,263	52.0%	-	1,643	52.5%	76.9%

# Network Content Division: Key Business Focus



Strategy for Existing Titles

“Browser Sangokushi”: Sales sustained through launch of new items and promotional activities

“Browser Baseball”: New user-membership achieved through aggressive promotional activities

PC

“Browser Sangokushi”



Genre: Multiplayer Simulation

Channeling Status of “Browser Sangokushi”			
Site	Service Launch Date	Site	Service Launch Date
Vector	Jul.2009	Han Game	Jan.2010
mixi	Aug. 2009	Gungho Game	Feb.2010
@games	Oct.2009	@nifty game	May 2010
Gamechu	Oct.2009	So-net game	May 2010
goo game	Dec.2009	Yahoo! MOBA	Oct. 2010
OCN game	Dec.2009	Nico nico Applications	Dec.2010

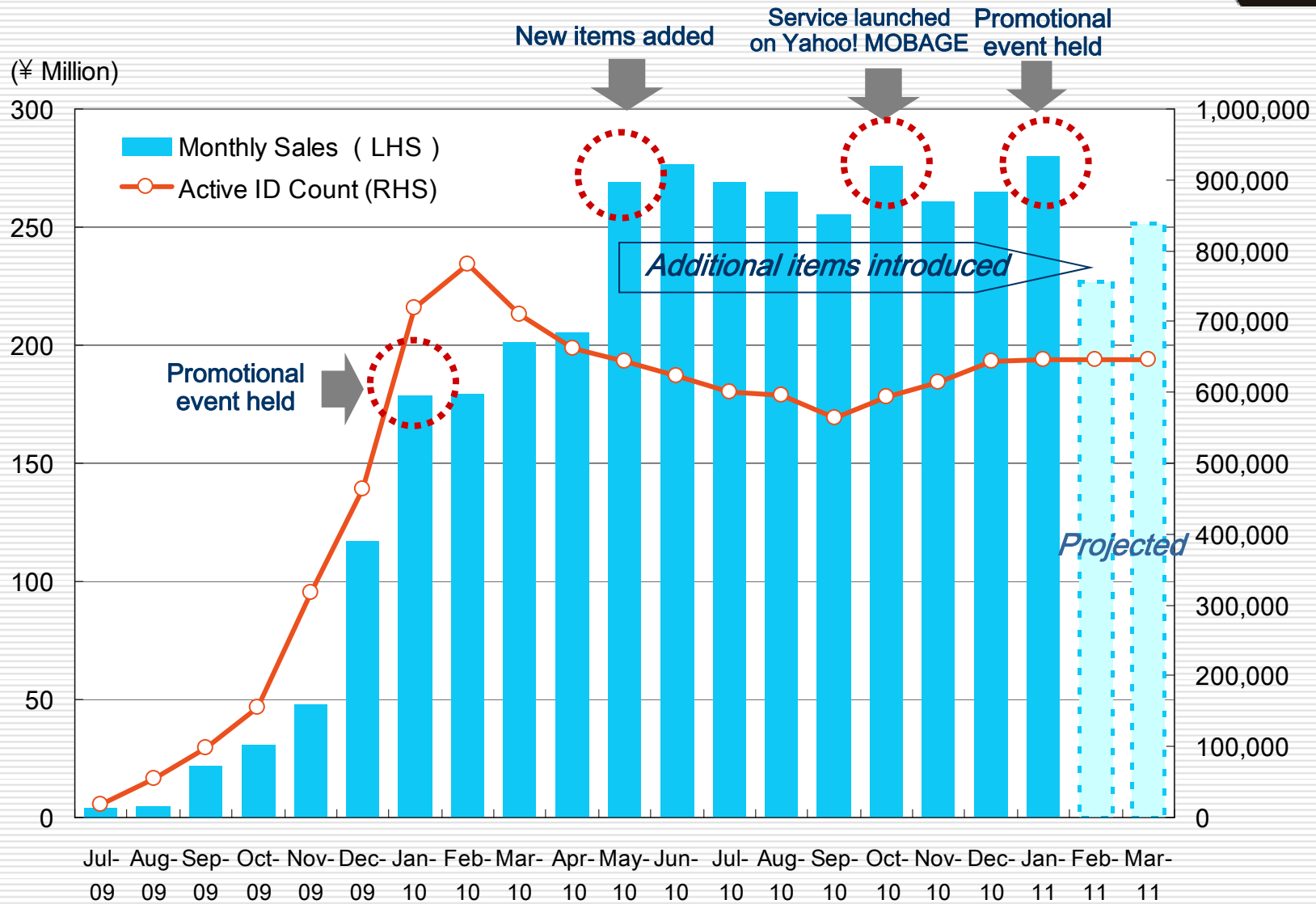
Strategy for New Titles

Reinforcing effort in games for cellphones, a market that is performing very well

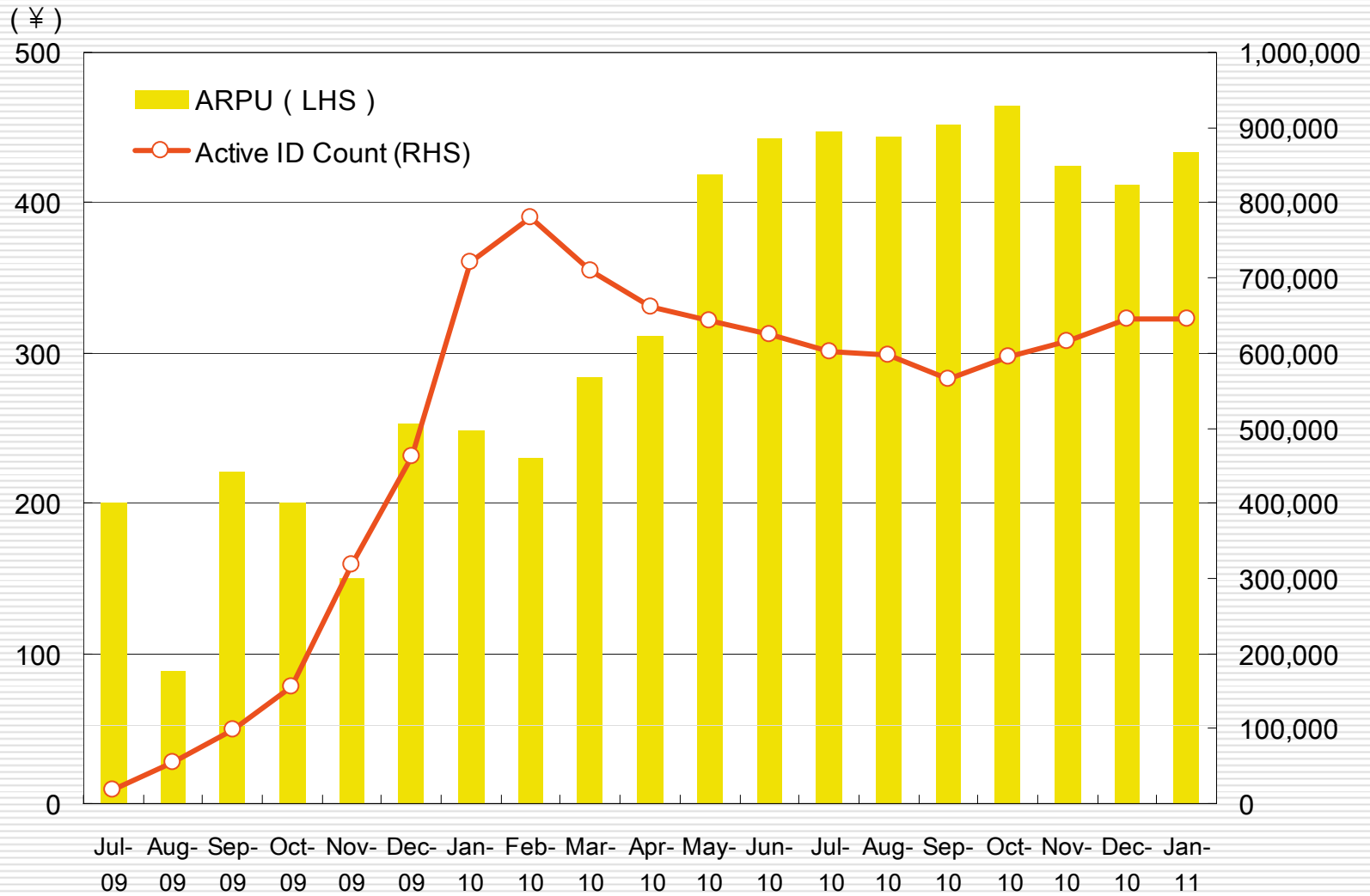
Currently setting up development system enabling us to release new titles every month from April



# [Reference] "Browser Sangokushi" Sales Trend



# [Reference] "Browser Sangokushi" ARPU Trend



# Arcade Game Division: Q3 FY3/11 Cumulative Results



## Net Sales

Driven primarily by “Pokemon Battrio”, an arcade machine for kids; “Cube Mall,” a small, proprietary crane game; and token-based “Minna de Derby” race game

\* Sales are expected to decline from Q4, following MICROCABIN CORP.’s exclusion as a consolidated subsidiary

## Divisional Income

Several titles under development amortized and product inventory value reviewed (¥△55 million)

(¥ Million)	Q1-3 FY3/10		Q1-3 FY3/11		YoY	FY3/11 Forecast		YTD
Proprietary Sales Segment	1,131	69.1%	850	64.4%	△ 281	1,000	68.0%	85.0%
Commissioned Projects Segment	506	30.9%	470	35.6%	△ 36	470	32.0%	100.0%
Arcade Game Div. Sales	1,637	100%	1,320	100%	△ 317	1,470	100%	89.8%
Divisional Income	225	13.7%	153	11.6%	△ 72	153	10.4%	100.0%

## IR Contact

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