Consolidated Financial Results for the Fiscal Year Ended December 31, 2012

[Japanese GAAP]

February 8, 2013

Company name: tella, Inc. Stock Exchange Listing: Osaka Securities Exchange (JASDAQ)
Stock code: 2191 URL: http://www.tella.jp/
Representative: Yuichiro Yazaki, President & Representative Director, Presidential Executive Officer
Contact: Ryohei Yamamoto, Director of the Board, Senior Executive Officer TEL: +81-3-6272-6477
Scheduled date of annual general meeting of shareholders: March 28, 2013
Scheduled date of filing of securities report: March 29, 2013
Scheduled date of dividend payment: March 29, 2013
Preparation of supplementary materials for financial results: None
Holding of financial results meeting: Yes (for institutional investors and securities analysts)

Note: The original disclosure in Japanese was released on February 8, 2013 at 15:30 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2012 (Jan. 1, 2012 to Dec. 31, 2012)

(1) Consolidated results of operations (Percentages shown for net sales and incomes represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY12/2012	1,544	16.8	221	210.9	220	322.1	99	499.6
FY12/2011	1,322	-	71	-	52	-	16	-

Note: Comprehensive income (millions of yen) FY12/2012: 123 (up 385.1%) FY12/2011: 25 (n.a.)

	Net income per share	Diluted net income per share	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
FY12/2012	7.59	7.48	7.4	10.3	14.3
FY12/2011	1.35	1.32	1.5	2.7	5.4

Reference: Equity in earnings (losses) of affiliates (millions of yen) FY12/2012: - FY12/2011: -

Note: We have not included FY12/2011 year-on-year comparisons because we began preparing consolidated financial statements starting from FY12/2011.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2012	2,079	1,437	67.3	106.56
As of Dec. 31, 2011	2,212	1,305	58.3	98.75

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2012: 1,399 As of Dec. 31, 2011: 1,291

(3) Consolidated cash flow position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the fiscal year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY12/2012	406	(150)	(318)	1,030
FY12/2011	139	(77)	359	1,092

2. Dividends

	Dividend per share					Total cash dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY12/2011	-	0.00	-	0.00	0.00	-	-	-
FY12/2012	-	0.00	-	0.80	0.80	10	10.5	0.8
FY12/2013 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Consolidated Forecast for the Fiscal Year Ending December 31, 2013 (Jan. 1, 2013 to Dec. 31, 2013)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	837	3.5	77	(51.9)	75	(51.7)	32	(49.1)	2.47
Full year	1,684	9.0	95	(56.7)	89	(59.2)	20	(79.2)	1.58

*** Notes**

(1) Changes in significant subsidiaries during the period (change in scope of consolidation): None

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(3) Number of shares outstanding (common stock)

1) Number of shares outstanding at the end of period (including treasury stock)

As of Dec. 31, 2012:	13,137,000 shares	As of Dec. 31, 2011:	13,074,000 shares

2) Number of shares of treasury stock at the end of period

As of Dec. 31, 2012:	239 shares	As of Dec. 31, 2011:	211 shares

3) Average number of shares outstanding during the period

FY12/2012:	13,124,272 shares	FY12/2011:	12,304,356 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended December 31, 2012 (Jan. 1, 2012 to Dec. 31, 2012)

(1) Results of operations (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY12/2012	1,211	1.5	152	234.7	141	516.6	75	2,058.2
FY12/2011	1,193	4.2	45	(68.4)	22	(82.6)	3	(95.4)

	Net income per share	Diluted net income per share
	Yen	Yen
FY12/2012	5.78	5.70
FY12/2011	0.29	0.28

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2012	1,952	1,362	69.8	103.75
As of Dec. 31, 2011	2,154	1,277	59.3	97.75

Reference: Shareholders’ equity (millions of yen) As of Dec. 31, 2012: 1,362 As of Dec. 31, 2011: 1,277

Note 1: Indication of audit procedure implementation status

This summary report is not subject to the audit procedures based on the Financial Instruments and Exchange Act. At the time of disclosure, the audit procedures for the consolidated and non-consolidated financial statements have not been completed.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time these materials were created. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “1. Results of Operations, (1) Analysis of Operating Results, Outlook for the Next Fiscal Year” on page 3 of the attachments for forecast assumptions and notes of caution for usage.

Contents of Attachments

1. Results of Operations

(1) Analysis of Operating Results

1) Summary of the Current Fiscal Year

In 2012, the Japanese economy recovered at a moderate pace in the first half with support from reconstruction demand following the Great East Japan Earthquake. However, the outlook in Japan was still unclear as the economy remained weak because of global economic uncertainty caused by the European debt crisis and other factors and the risk of an economic downturn caused by financial market volatility or other events.

The tella Group continued to perform R&D involving the dendritic cell (DC) vaccine therapy and other therapies, which is one type of cancer vaccine therapy. We conducted sales activities targeting medical institutions nationwide, and academic and information activities which include mainly using seminars and other methods to provide information to patients and making announcements at academic events. Activities also include the ongoing provision of maintenance and management services of cell processing facilities by contract chiefly to university and research institutions.

In 2012, net sales increased 222,458 thousand yen, or 16.8%, from one year earlier to 1,544,923 thousand yen. This was attributable to firm sales in the Cell Therapy Support Business. Earnings were much higher than in 2011 as the benefits of higher sales and cost cutting measures in the Cell Therapy Technology Development Business more than offset higher expenses resulting from growth of the Cell Therapy Support Business. As a result, operating income increased by 150,363 thousand yen, or 210.9%, to 221,644 thousand yen, ordinary income rose by 168,203 thousand yen, or 322.1%, to 220,423 thousand yen, and net income grew by 83,008 thousand yen, or 499.6%, to 99,623 thousand yen.

Fiscal year performance by reportable segment was as follows.

Cell Therapy Technology Development Business

In this business segment, we provide unique cancer treatment technologies and know-how, chiefly the DC vaccine therapy, to contracted medical institutions.

Regarding sales activities targeting medical institutions nationwide, we entered into client medical institution agreements with following medical institutions: Medical Corporation Seisyoukai (Hamamatsu-kita Hospital, Hamamatsu City, Shizuoka) in October 2012; Towada City Central Hospital (Towada City, Aomori); Miyakonojo National Hospital (Miyakonojo City, Miyazaki); Dojima Liga Clinic (Fukushima-ku, Osaka City, Osaka); Veritas Medical Partners (Azabu Clinic, Minato-ku, Tokyo); and Clinica Medica Tokyo (Minato-ku, Tokyo) in December 2012. Adding these alliances raised to 29 the number of contracted medical institutions as of the end of December 2012.

To provide information to patients, we held cancer treatment seminars jointly with contracted medical institutions in the prefectures of Miyagi, Tokyo, Aichi, Kyoto, Hyogo, and Fukuoka.

We announced the results of clinical trials with contracted medical institutions and R&D programs at the "50th Annual Meeting of the Japan Society of Clinical Oncology" in October 2012 and delivered other academic presentations. All these activities helped increase the awareness of tella's activities among clinical physicians and research scientists.

In September 2012, Shinshu University Hospital, a contracted medical institution of tella has been approved as a medical institution providing DC vaccine therapy (a cancer vaccine therapy employing dendritic cells and tumor antigen peptide) as an advanced medical treatment. tella signed a joint research agreement with the National University Corporation Shinshu University in July 2008. Shinshu University Hospital has been conducting clinical research on the basis of these technologies and know-how related to the DC vaccine therapy. Subsequently, Shinshu University Hospital has been providing DC vaccine therapy as an advanced medical treatment for breast cancer, lung cancer, pancreatic cancer, stomach cancer, and colorectal cancer.

In December 2012, the electronic version of the European Journal of Cancer 13, December 2012, which is the official periodical of the European Organization for Research and Treatment of Cancer (EORTC) and several other cancer research institutions in Europe, included an article about the tella DC vaccine therapy. The article examined the effectiveness of this treatment using WT1 peptides for advanced small-cell lung cancer and the prognosis factor.

tella continues to support application for advanced medical treatment and to promote the reinforcement of the scientific evidence to back it up.

Due to all of these activities, there were approximately 1,400 cases during 2012 in which the DC vaccine therapy was used. This raises to about 6,300 the total number of DC vaccine therapy cases since tella was established.

Segment sales in 2012 increased by 18,275 thousand yen, or 1.5%, to 1,211,962 thousand yen as a result of a generally steady growth in the number of cases at contracted medical institutions, which offset the effects of a reexamination of contracts with some contracted medical institutions. Operating income rose strongly from one year earlier by 106,882 thousand yen, or 234.7%, to 152,426 thousand yen due mainly to a decrease in depreciation and measures to cut costs and improve efficiency.

Cell Therapy Support Business

Activities in this segment include the operation of cell processing facilities by contract for research and medical institutions, the provision of maintenance and management services for these facilities, sales of replacement supplies and devices, sales support and others.

Segment sales in 2012 rose strongly with growth of 204,183 thousand yen, or 158.6%, to 332,961 thousand yen. One reason was the inclusion of the entire 2012 sales of Bio Medica Solution Co., Ltd., which became a consolidated subsidiary in February 2011. Another reason was the strong new orders for sales support and maintenance and management services. Although affected by an increase in the cost of sales as a result of this growth in orders, operating income increased sharply from one year earlier by 43,481 thousand yen, or 169.0%, to 69,217 thousand yen.

2) Outlook for the Next Fiscal Year

There are expectations for another recovery of the Japanese economy in 2013 because of an improvement in the environment for exports and the benefits of government measures to stimulate economic growth. But there is still a risk of a downturn in Japan caused by a decline in overseas economies.

More growth is expected in the medical care sector involving immunotherapy treatment for cancer. While competition among medical institutions is increasing along with growth in the number of medical institutions that use cell immunotherapy treatment for cancer, larger use will lead to greater awareness and understanding of cancer immunotherapy. Support from government policies, revisions of regulations and other positive developments are taking place along with growing public interest in regenerative and cellular treatment methods.

In 2012, tella worked on increasing the number of client medical institutions that treat patients in association with its current contracted medical institutions. In 2013, tella plans to increase the number of DC vaccine therapy cases by expanding support for the client medical institution system along with the formation of ties with new basic affiliated medical institutions and more client affiliated medical institutions. In addition, we plan to continue performing clinical studies and research in order to create a stronger base of scientific evidence. The aim is to make more patients and medical care professionals aware of the DC vaccine therapy and increase the use of this therapy. We will also consider the development of pharmaceuticals and other products while monitoring developments involving regulations and other items. Furthermore, we will conduct joint activities with university and other medical institutions for the development and use of new cancer antigens and cell immunotherapy methods. We hope that contracted medical institutions can start using these new antigens and methods quickly. Regarding new business development, we are making progress with preparations in order to start overseas operations as soon as possible, primarily in Southeast Asia and China. Bio Medica Solution Co., Ltd. is engaged primarily in the operation of cell processing facilities by contract and the provision of maintenance and management services for these facilities, and taking steps to expand the Cell Therapy Support Business.

In 2013, we expect an increase in the number of cases at contracted medical institutions along with the addition of more contracted medical institutions. There will also be substantial investments to achieve the goals of our medium-term growth strategy. As a result, we forecast net sales of 1,684 million yen, operating income of 95 million yen, ordinary income of 89 million yen, and net income of 20 million yen.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

Total assets, liabilities and net assets at the end of the current fiscal year were as follows.

(Thousands of yen)

	FY12/2011	FY12/2012	Change
Total assets	2,212,798	2,079,231	(133,567)
Total liabilities	907,673	641,505	(266,168)
Net assets	1,305,124	1,437,725	132,601

Total assets decreased 133,567 thousand yen from the end of the previous fiscal year to 2,079,231 thousand yen as of the end of the current fiscal year, mainly due to decreases of 62,119 thousand yen in cash and deposits, 47,213 thousand yen in notes and accounts receivable-trade, and 46,032 thousand yen in property, plant and equipment.

Liabilities decreased 266,168 thousand yen to 641,505 thousand yen, mainly due to the repayment of interest-bearing debt including decreases of 158,200 thousand yen in long-term loans payable and 124,400 thousand yen in bonds payable.

Net assets increased 132,601 thousand yen to 1,437,725 thousand yen, mainly due to an increase in retained earnings from net income of 99,623 thousand yen, and an increase of 23,791 thousand yen in minority interests.

2) Cash Flows

Cash flows by category were as follows.

(Thousands of yen)

	FY12/2011	FY12/2012	Change
Cash flow from operating activities	139,984	406,200	266,216
Cash flow from investing activities	(77,905)	(150,217)	(72,312)
Cash flow from financing activities	359,562	(318,102)	(677,665)
Net increase (decrease) in cash and cash equivalents	421,641	(62,119)	(483,761)
Cash and cash equivalents at end of period	1,092,670	1,030,551	(62,119)

Cash and cash equivalents as of the end of the current fiscal year totaled 1,030,551 thousand yen, 62,119 thousand yen less than as of the end of the previous fiscal year.

Net cash provided by operating activities totaled 406,200 thousand yen. Major items included income before income taxes and minority interests of 210,066 thousand yen, depreciation and amortization of 158,184 thousand yen, a decrease in notes and accounts receivable-trade of 47,213 thousand yen, and income taxes paid of 45,900 thousand yen.

Net cash used in investing activities totaled 150,217 thousand yen. There were payments of 103,695 thousand yen for the purchase of property, plant and equipment to support our facilities and basic affiliated medical institutions, and 43,884 thousand yen for the purchase of intangible assets.

Net cash used in financing activities totaled 318,102 thousand yen. There were 158,200 thousand yen in repayment of long-term loans payable, 124,400 thousand yen in redemption of bonds, 44,491 thousand yen in repayments of lease obligations, and 9,023 thousand yen in proceeds from issuance of stock resulting from exercise of subscription rights to shares.

Reference: Cash flow indicators

	FY12/2011	FY12/2012
Shareholders' equity ratio (%)	58.3	67.3
Shareholder's equity ratio on a market value basis (%)	244.0	537.0
Interest-bearing debt to cash flow ratio (%)	524.5	100.5
Interest coverage ratio (Times)	9.2	35.1

Shareholders' equity ratio: Shareholders' equity / Total assets
Shareholder's equity ratio on a market value basis: Market capitalization / Total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt / Operating cash flow
Interest coverage ratio: Operating cash flow / Interest payments

Notes: 1. Since we began preparing consolidated financial statements starting from FY12/2011, there are no figures for the prior fiscal years.
2. Market capitalization is calculated using the closing price quoted at the period end times the number of shares outstanding (less treasury stocks).
3. Cash flows are calculated using the figures for operating cash flows in the statements of cash flows.
4. Interest-bearing debt includes all liabilities on the consolidated balance sheets that incur interest.

(3) Profit Allocation Policy and Dividend Payment Plan for the Current and Next Fiscal Years

Returning earnings to shareholders while strengthening the financial position and becoming more competitive is one of the highest priorities of tella. Management is committed to conducting business operations while adapting swiftly to changes in the operating environment and preserving the Company's competitive edge. To accomplish this, the Company has a policy of distributing earnings by taking into account results of operations and the financial position and by reflecting growth in earnings along with the need to increase retained earnings. The dividend policy is to link the dividend to earnings by allocating about 10% of net income to dividends while placing emphasis on reinvesting earnings to support our corporate growth.

Based on this policy, tella plans to pay a year-end dividend of 0.8 yen per share applicable to 2012. Since there was no interim dividend, this payment will result in an annual dividend of 0.8 yen per share for 2012. This is a dividend payout ratio of 10.5%. However, tella plans to make no dividend payments for 2013 because of the need to retain funds for reinvestments required for its medium-term growth strategy.

The tella Articles of Incorporation include a provision allowing the Board of Directors to approve dividends from surplus as stipulated in Article 459, Paragraph 1 of the Company Law. Consequently, the Board of Directors is the decision-making body for both interim and year-end dividends.

(4) Business Risk

The following section presents significant information regarding business and financial matters that may affect the decisions of investors. In addition, from the standpoint of fully disclosing information to investors, this section includes items that may not be risks involving business operations but are significant with regard to investment decisions by investors. The Group is aware of these risks and takes actions aimed at preventing these problems and responds to these problems if they should occur. Before reaching a decision concerning an investment in the Group's stock, investors are cautioned to carefully study these risk factors as well as other information in this document.

Forward-looking statements are based on the judgment of the Group as of the end of the current fiscal year.

1) Risks Associated with Business Activities

i) Cost of medical care and number of patients

The tella Group provides technologies and know-how concerning the DC vaccine therapy and other therapies, and receives contract-based fees according to the number of patients treated by contracted medical institutions. As a result, changes in the relevant medical fees of these treatments received by them and the number of patients have a significant effect on the Group's earnings.

If there is a decline in the medical fees for treatments contracted medical institutions provide for some reason as actions are taken to increase the use of cancer immunotherapies, primarily the DC vaccine therapy, if there is a revision in rate of fees that the Group receives in return for its services, or if there is a decline in the number of patients at contracted medical institutions, there may be an impact on the Group’s performance and financial condition.

ii) Competition with peers in the pricing of services

The innovative nature and growth potential of cancer immunotherapies, primarily the DC vaccine therapy, may result in increasingly heated competition from companies currently active in this business sector as well as from new competitors. Furthermore, the DC vaccine therapy for which tella provides technologies and know-how is one type of immunotherapy. This creates the possibility of the DC vaccine therapy, as a therapy of the immunotherapy category, being mistakenly viewed as a treatment that is similar to other therapies belonging to this category. The Group will continue to work on differentiating its therapies from other apparently similar treatment methods. However, the emergence of many competitors offering various immunotherapy methods along with more heated competition may result in competitive pressure on prices paid for these services. If this happens, there may be an impact on the Group’s performance and financial condition.

iii) Decline in the public’s perception of the DC vaccine therapy and other therapies

The Group provides technologies and know-how concerning the DC vaccine therapy and other therapies. Currently, these therapies are provided in Japan as a discretionary treatment that patients pay for on their own. Discretionary treatments can be provided without having first completed the clinical studies that are required for treatments covered by the national health insurance. Compared with those covered by the national health insurance, discretionary treatments present a mixture of treatments that are good and bad in quality. Some competitors that offer cancer immunotherapy may cause problems by providing technologies and know-how or services with inferior quality. If such problems occur, the resulting damage to the public’s perception of the DC vaccine therapy and other therapies may have an impact on the Group’s performance and financial condition.

iv) Changes in market conditions or demand

The Group’s earnings are vulnerable to changes in the cancer therapy market, the market for treatments not covered by the national health insurance, the cancer immunotherapy market, and demand for the DC vaccine therapy and other therapies. There may be a decline in the number of cancer patients in Japan because of the nation’s falling population or advances and increasing utilization of cancer prevention technologies. There is also a possibility that the number of discretionary treatments may fall as insurance coverage is enlarged for certain new cancer therapies or that cancer treatments other than DC vaccine therapy may emerge in the cancer immunotherapy domain. Any of these events may have an impact on the Group’s performance and financial condition.

v) Advances in technology

The speed of technological innovation and progress is rapid in the field of cancer treatments, which is the Group’s business domain. Many R&D projects are under way to create new cancer drugs and other ways to treat cancer. The Group performs R&D programs based on the understanding of the need to constantly make revisions to its DC vaccine therapy and other therapies based on new ideas. If the Group loses its competitive edge because other companies develop technologies first or the Group falls behind in developing new and better technologies, there may be an impact on the Group’s performance and financial condition.

vi) Framework for assisting with quality assurance

The Group provides contracted medical institutions with technologies and know-how concerning the DC vaccine therapy and other therapies. However, the contracted medical institutions grow cells in a cell culture themselves. This step is not performed by the Group.

The Group provides the following support to contracted medical institutions to assist them in growing high-quality cells for therapy.

(a) To prevent contamination by microbes, cell cultures are located in a cell processing facility that has air cleanliness conforming to GMP standards and sterility is maintained during the cell processing stage.

(b) Contracted medical institutions are asked to establish Standard Operating Procedures (SOP) for all tasks and ensure that these procedures are followed. This minimizes the possibility of human error during the cell processing stage.

(c) They are asked to purchase cell culture fluids, reagents and other materials required to grow cells in accordance with contracts with suppliers that have exacting and carefully defined terms. This helps prevent the receipt of defective products and the degradation of products received. The Group also asks them to upgrade their purchasing, storage and inspection systems.

(d) The Group periodically inspects contracted medical institutions to check the quality of cells and the operation of associated facilities for the purpose of preventing a decline in quality.

However, even though a contracted medical institution complies with the Group's guidelines, there is a possibility of a decline in the quality of cells grown by a contracted medical institution and, as a result, a decline in the quality of therapies provided to patients. If this happens, there may be an impact on the Group's performance and financial condition.

2) Risks Associated with Sudden Changes in Financial Position, Operating Results and Cash Flows

i) Possibility of asset impairment charges

The Group makes capital expenditures to purchase equipment that is loaned to basic affiliated medical institutions and invests in intellectual property rights and other assets. When determining the value of noncurrent assets, the Group applies "Accounting for Impairment of Fixed Assets" and "Guidance for Accounting Standard for Impairment of Fixed Assets." If there is a need for any additional asset impairment for some reason, there may be an impact on the Group's performance and financial condition.

ii) Establishment of new companies

The Group acquired Bio Medica Solution Co., Ltd. in February 2011 for the purposes of strengthening maintenance and management services for cell processing equipment and facilities, selling replacement supplies, and performing inspections by contract.

The Group may establish more subsidiaries and affiliates to increase business opportunities. However, there is no assurance that these companies will be able to conduct business activities as planned. Furthermore, higher expenses from these business activities or other aspects of these activities may have a negative impact on the Group's performance.

3) Reliance on Particular Customers, Products and Technologies

i) Reliance on particular customers

The Group provides technologies and know-how to medical institutions. At this time, specific basic affiliated medical institutions account for a large percentage of revenue and earnings. We believe that our reliance on specific basic affiliated medical institutions will decrease over time as the number of contracted medical institutions increases. However, if there are delays in increasing the number of new basic affiliated medical institutions or a change in the relationships of current basic affiliated medical institutions with the Group, there may be an impact on the Group's performance and financial condition.

Sales to major customers and the ratio to net sales (Thousands of yen, %)

Major customers	FY12/2010 (Jan. 1 – Dec. 31, 2010)		FY12/2011 (Jan. 1 – Dec. 31, 2011)		FY12/2012 (Jan. 1 – Dec. 31, 2012)	
	Sales	Pct. of total	Sales	Pct. of total	Sales	Pct. of total
SEREN CLINIC Tokyo	193,462	16.9	156,852	11.9	184,100	11.9
Tokyo Midtown Medical Center	49,467	4.3	110,307	8.3	173,067	11.2
SEREN CLINIC Nagoya	180,927	15.8	165,237	12.5	164,412	10.6

Notes: 1. The above amounts do not include consumption and other taxes.
2. Figures for FY12/2010 are non-consolidated and figures for FY12/2011 and FY12/2012 are consolidated because we began preparing consolidated financial statements from FY12/2011.
3. SEREN CLINIC and Midland Clinic changed their names to SEREN CLINIC Tokyo and SEREN CLINIC Nagoya on April 1, 2011.

ii) Contracts with contracted medical institutions

The Group has alliance agreements with contracted medical institutions concerning the use of the DC vaccine therapy and other therapies. In principle, these contracts are extended automatically upon their completion unless either party notifies the other party of its intent to terminate the contract within a certain period prior to the termination date. However, contracts may be terminated due to a change in the management policies of contracted medical institutions or cancelled due to a violation by the Group of the terms of contracts with contracted medical institutions. If this happens, there may be an impact on the Group's performance and financial condition.

iii) Reliance on particular physicians and cell culture specialists at contracted medical institutions

The Group's earnings are derived primarily from medical treatments and cell culture activities at contracted medical institutions. The provision of medical treatment depends on the decisions of physicians and cell culture activities depend on the skill of cell culture technicians. A contracted medical institution may no longer be able to provide proper medical treatment if a physician with expertise in DC vaccine therapy and other therapies or a cell culture technician resigns or for some other reason. If this happens, there may be an impact on the Group's performance and financial condition.

iv) Infringement of intellectual property rights

The Group may infringe on the patents or other intellectual property of other companies. We use technological consultants to perform studies of technologies and patents to prevent such infringements. However, in the field of cancer treatments, where technology-based competition is fierce, there is a possibility that patents or other intellectual property may exist without our knowledge. In this case, we may violate the rights of other companies. If this happens, there may be an impact on the Group's performance and financial condition.

v) Leaks of technologies and know-how

The provision of technologies and know-how involving the DC vaccine therapy and other therapies to contracted medical institutions is the Group's primary source of revenue. We have confidentiality agreements with all contracted medical institutions. In addition, we ask contracted medical institutions to have all associated employees and other associated parties sign confidentiality agreements. Furthermore, we have strict rules for the storage and handling of confidential documents and other materials. The Group is also purchasing exclusive licenses, exclusive utilization rights and other rights concerning materials involving the DC vaccine therapy and other therapies. These purchases are intended to prevent parties that do not have a contract with the Group from performing a similar therapy including the DC vaccine therapy even in the unlikely event of a leak of the Group's technologies or know-how. Nevertheless, a leak of technologies or know-how may have an impact on the Group's performance and financial condition.

vi) Inability to receive permission from holders of rights

In some instances, the Group uses WT1 peptide as artificial antigen with regard to the technologies and know-how provided for performing the DC vaccine therapy. We have acquired the exclusive right to use this peptide. There is a possibility of an increase in the cost of this utilization right or the loss of the approval to use WT1 peptide resulting from a change in the policies of the party holding this right, a violation by the Group of the contract terms, or for some other reason. If this happens, there may be an impact on the Group's performance and financial condition.

vii) R&D activities and expenditures

The Group conducts a variety of joint R&D programs with universities and other partners. One goal is to improve the clinical effectiveness of the DC vaccine therapy and other therapies. Another goal is to create new sources of earnings from a medium- and long-term perspective. If there is a significant increase in the cost of these R&D programs because of a change in the policies of a university or other partner, a project that requires more time than expected or for some other reason, there may be an impact on the Group's performance and financial condition.

4) Regulatory Restrictions, Business Practices and Management Policies

i) Reliance on a particular individual

The Company's president and representative director, presidential executive officer Yuichiro Yazaki is the Group's chief executive officer. As a physician and research scientist, Dr. Yazaki has extensive knowledge and experience involving the DC vaccine therapy and advanced medical treatment technologies. He uses his extensive personal relationships with individuals at medical institutions and research facilities for sales activities. Overall, Dr. Yazaki plays an enormous role in the business activities of the Group. Consequently, if Dr. Yazaki is no longer able to perform his duties at the tella Group for some reason, there may be an impact on the Group's performance and financial condition.

ii) Small size of company

The Company is a small company with six directors, three corporate auditors and 46 employees as of December 31, 2012. The internal management framework is also small. We plan to increase the workforce as the scale of business operations increases. We also plan to strengthen internal management systems along with this growth. However, if we are unable to establish a proper and sufficient organizational framework in relation to the growth of business activities and the workforce or if a large number of employees resign over a short period of time, there may be an impact on the Group's performance and financial condition.

iii) Recruiting and training activities

Most of the business activities of the Group depend on research scientists, technicians and other individuals with highly specialized skills. We use on-the-job training and other programs to upgrade the skills of our employees. However, the inability to recruit a sufficient number of individuals in relation to the scale of our investments or to develop the skills of these individuals may limit the Group's ability to grow, thereby impacting the Group's performance and financial condition.

iv) Stock options

The Group has a system for granting stock options.

The value of each share of the Group stock may be diluted if stock options currently outstanding are exercised. On December 31, 2012, stock options outstanding represented a total of 249,000 shares of the Group stock. If all of these options had been exercised, the resulting shares issued would have been equivalent to 1.90% of the 13,137,000 shares issued as of December 31, 2012.

The Group is considering a continuation in the use of stock options as an incentive plan for recruiting and retaining talented individuals. Consequently, if stock options granted in the future are exercised, there may be dilution in the value of each share of the Group stock.

In addition, for newly granted stock options, the Group is required to post expenses for stock options in accordance with "Accounting Standard for Stock Options" (Accounting Standards Board of Japan (ASBJ) Statement No. 8) and "Guidance on Accounting Standard for Stock Options" (ASBJ Guidance No. 11). As a result, new stock options may impact the Group's performance.

v) Internal ethical standards (system for investigations)

The Group has an Ethics Committee that includes professionals from outside the Group. The committee members study the suitability of new treatments and other services to be provided at contracted medical institutions from the standpoints of ethics and safety. The committee then decides if the treatment should be performed. If approval is granted, technologies and know-how for the applicable treatment are supplied to the contracted medical institutions. Based on contracts with contracted medical institutions, these institutions assume responsibility for providing treatments that use our technologies and know-how. However, an accident or other problem involving this treatment may, regardless of the cause, result in a loss of faith in the Group among medical institutions and patients. If this happens, there may be an impact on the Group's performance and financial condition.

vi) Laws and regulations

Services provided by the Group are governed by the Pharmaceutical Affairs Act, Medical Practitioners Act, Medical Care Act and other laws and regulations. For example, Article 12 of the Pharmaceutical Affairs Act stipulates that a party that has not received permission to manufacture pharmaceuticals, etc. may not conduct a business for the purpose of manufacturing and selling pharmaceuticals, etc. Furthermore, Article 17 of the Medical Practitioners Act states that "a medical care business can be performed only by a physician."

When the Group provides technologies and know-how, cell cultures are performed by staff members of the contracted medical institutions under the direction of that institution's physicians. In addition, the Group does nothing other than supply technologies and know-how to contracted medical institutions. The Group is not involved at all in the management of these institutions.

When the Group was established, management carefully created a business model that would not violate these applicable laws and regulations. Consequently, business operations at this time are not in violation of any of them. However, future changes to applicable laws, regulations and other items may have an impact on the Group's performance and financial condition.

5) Significant Litigation

Litigation concerning medical treatment

Thus far, the Group has not been named in any lawsuits filed by contracted medical institutions or their patients or other associated individuals that demand compensation for alleged damages. If there is such litigation in the future for whatever reason, there may be an impact on the Group's performance and financial condition.

6) Others Items

i) Risks involving natural disasters

Although earthquakes and other natural disasters cannot be predicted, damage resulting from such a disaster at the Group or a contracted medical institution may have an impact on the Group's performance and financial condition.

ii) New business activities

The Group is engaged in the provision of technologies and know-how concerning the DC vaccine therapy and other therapies to contracted medical institutions. To achieve further growth in corporate value, we are also moving quickly to start new business activities. Plans include building new business models, launching associated businesses, starting overseas operations and taking other actions. Investments in these businesses are made only after thorough research and other studies. However, if market conditions change rapidly, greater than expected expenses are needed for recruiting, equipment and other items, or a business plan falls far behind schedule, there may be an impact on the Group's performance and financial condition.

2. Group Organization

Business Activities

To fulfill its central mission of “Medical Care Creation,” the tella Group conducts business activities in two segments. The Cell Therapy Technology Development Business provides unique cancer treatment technologies and know-how that involve primarily the dendritic cell (DC) vaccine therapy. The Cell Therapy Support Business involves primarily the operation of cell processing facilities by contract and the provision of maintenance and management services for these facilities.

There are three types of contracted medical institutions, depending on the type of contract used, that receive services provided by the Cell Therapy Technology Development Business: (1) basic affiliated medical institutions, (2) clinical affiliated medical institutions and (3) client medical institutions.

(1) Basic Affiliated Medical Institutions

At these medical institutions, tella loans equipment, provides technologies and know-how, performs marketing activities, distributes information to medical institutions and patients, and provides licensing agreements associated with cancer immunotherapy, primarily the DC vaccine therapy. In return, we receive facility utilization fees, technology and know-how fees and fees for the utilization of licensed rights based on the number of treatments provided. For newly established medical institutions, we provide support extending from the establishment process to the installation of equipment and associated activities. For current medical institutions, our support covers the installation of equipment and associated activities.

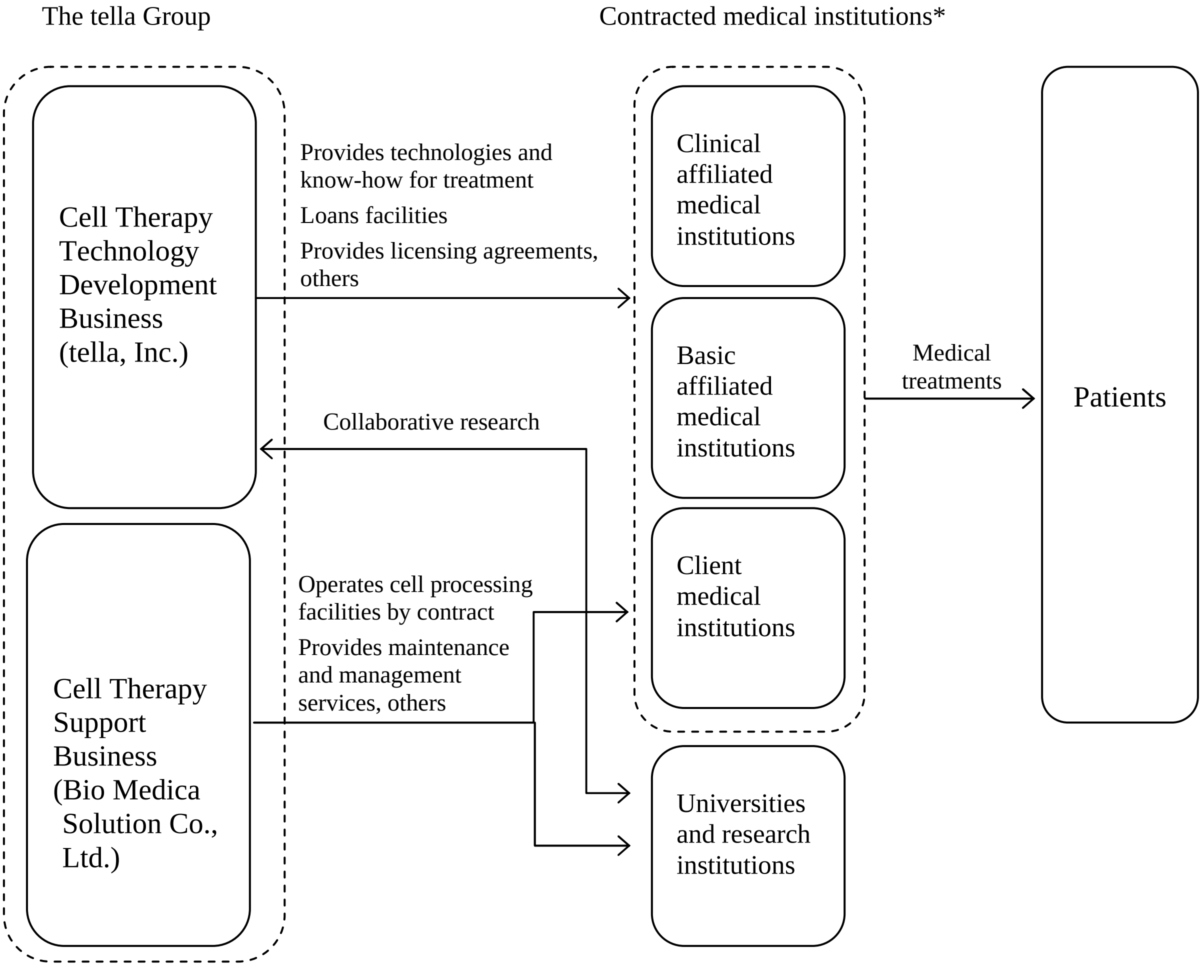
(2) Clinical Affiliated Medical Institutions

At these medical institutions, tella provides technologies and know-how, performs marketing activities, distributes information to medical institutions and patients, and provides licensing agreements associated with cancer immunotherapy, primarily the DC vaccine therapy. In return, we receive technology and know-how fees and fees for the utilization of licensed rights based on the number of treatments provided. Unlike with basic affiliated medical institutions, no facility utilization fees are received because we do not install any equipment to these medical institutions.

(3) Client Medical Institutions

These medical institutions provide treatments in association with basic affiliated medical institutions or clinical affiliated medical institutions. tella provides technologies and know-how, and distributes information to medical institutions and patients, associated with cancer immunotherapy, primarily the DC vaccine therapy. In return, we receive a consulting fee.

A business diagram of business operations is as follows.



*Services provided differ depending on the terms of the contract with each contracted medical institution.

3. Management Policies

(1) Fundamental Management Policy

The tella Group is dedicated to fulfilling the mission of “Medical Care Creation.” By developing and providing innovative medical care technologies and know-how, we aim to conduct business activities that contribute to a better future for everyone, both patients and people in good health, as well as society as a whole.

Based on this fundamental management policy, we conduct R&D concerning new technologies and know-how that involve cancer immunotherapy, primarily the DC vaccine therapy which is one type of cancer vaccine therapy. At the same time we improve the quality and utilization of cancer immunotherapy, and perform other activities. We thereby aim to increase earnings, continue to grow and raise corporate value.

We also base activities on a commitment to corporate social responsibility (CSR) so that the growth and development makes a contribution to society.

(2) Targeted Performance Indicators

The medical care sector involving cell immunotherapy treatment for cancer is growing steadily along with the spreading use of this type of therapy, and this growth is expected to continue. Against this backdrop, the Group is performing R&D activities concerning unique cancer treatment technologies and know-how that involve cancer immunotherapy, primarily the DC vaccine therapy. The Group aims to achieve growth while establishing an even more stable base of operations through providing technologies and know-how concerning these cancer treatments to contracted medical institutions.

The Group places emphasis on two performance indicators: net sales and ordinary income as a percentage of net sales. Net sales have increased every year since our establishment, and our goal is to maintain double-digit growth in net sales. Our medium- and long-term goal for ordinary income is a ratio of at least 10% in relation to net sales.

(3) Medium- and Long-term Management Strategy

The Group is dedicated to making more improvements to technologies involving the DC vaccine therapy and to achieving more progress in increasing the quality and utilization of cancer immunotherapy, primarily the DC vaccine therapy. In addition, we will acquire rights to new cancer antigens and other substances that are vital to the DC vaccine therapy in order to facilitate the practical use of these therapies in actual medical care. Furthermore, we are considering the launch of overseas operations to provide the DC vaccine therapy as well as the development of pharmaceuticals and other products. By supplying a comprehensive line of assistance in the field of cell therapy, we will continue to fulfill our corporate mission.

With these goals in mind, we conduct R&D activities centered on cancer therapies that we believe will be key elements of our profit structure from a medium and long-term perspective. These therapies are focused on the following themes: cancer, cell therapy, immunotherapy, cancer vaccines, dendritic cells and regenerative medicine.

In addition, these R&D activities are in fields that can yield significant synergies with our current business model.

(4) Key Issues

This section lists key issues associated with the Group’s business activities, which involve R&D primarily associated with the DC vaccine therapy which is one type of cancer vaccine therapy, and the provision of unique cancer treatment technologies and know-how.

1) Issues Involving the DC Vaccine Therapy

i) Acquisition of artificial antigens

Artificial antigens are one of the most important substances that are required for the DC vaccine therapy. We believe that increasing the number of antigens available to us will broaden the scope of patients who can undergo the DC vaccine therapy and make this therapy more effective.

The Group has a contract granting exclusive rights to use patents involving the use of WT1*, MAGE-A4 and Survivin peptides for the DC vaccine therapy and other therapies. Since these peptides can be combined with each other, we hope to use these combinations to make the DC vaccine therapy even more effective.

* WT1

In September 2009, WT1 were ranked first as an ideal cancer antigen among 75 types of cancer antigens in Clinical Cancer Research (2009 Volume 15, pages 5323-37), an academic publication of the American Association for Cancer Research (AACR).

ii) Improving dendritic cell quality and the cell culture efficiency

The quality of dendritic cells given to a patient has an enormous influence on the clinical efficacy of the DC vaccine therapy. The Group's technologies and know-how in dendritic cell culture is based on clinical research performed at The Institute of Medical Science at the University of Tokyo and at the University of Tokushima. Furthermore, we have been making constant improvements by using information gained from the practical use of the DC vaccine therapy. However, we believe there is a need for more improvements to make cell culture methods more efficient and stable and a need to develop cell processing equipment and quickly begin distributing this equipment.

iii) Increase the volume of scientific evidence

We would like to earn the support and understanding of even more medical professionals so that patients can obtain medical examinations with even greater confidence. We plan to accumulate and analyze data involving basic and clinical research and perform other activities in order to strengthen the scientific evidence. We will accomplish this by using medical care provided at clinical affiliated medical institutions as well as by performing research jointly with universities and other research institutes.

2) Greater Awareness and Understanding among Medical Care Professionals and Patients

Until recently, medical care professionals in Japan have generally recommended discretionary treatments that are not covered by the national health insurance in very rare instances. Furthermore, we believe there is a lack of awareness and understanding about the DC vaccine therapy because this therapy uses new technologies and know-how.

Increasing the use of the DC vaccine therapy will require a better understanding of this therapy among medical care professionals and patients. This is why we use academic conferences and seminars, the media and other means to provide information about the results of treatments at contracted medical institutions as well as new technologies and know-how. We will use these activities to increase the awareness and understanding of these therapies among medical care professionals and patients.

3) Recruiting and Training of Technicians

The Group provides cell culture specialists at contracted medical institutions with training concerning advanced technologies for culturing dendritic cells and other tissues used for medical therapies. As the number of contracted medical institutions increases, we will have to work harder on recruiting and training technicians who can provide assistance involving these advanced cell culture technologies.

We plan to meet this requirement by recruiting talented individuals based on a plan and by upgrading training programs for those individuals. We plan to use these measures to create a framework for the consistent training and supervision of cell culture specialists at contracted medical institutions.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	FY12/2011 (As of Dec. 31, 2011)	FY12/2012 (As of Dec. 31, 2012)
Assets		
Current assets		
Cash and deposits	1,092,670	1,030,551
Notes and accounts receivable-trade	338,881	291,667
Raw materials	4,540	3,390
Prepaid expenses	52,984	50,390
Deferred tax assets	5,874	9,666
Other	19,126	25,887
Allowance for doubtful accounts	(8,437)	(8,506)
Total current assets	1,505,641	1,403,047
Noncurrent assets		
Property, plant and equipment		
Buildings, net	247,186	212,256
Tools, furniture and fixtures, net	185,813	215,570
Lease assets, net	95,493	54,633
Total property, plant and equipment	528,492	482,460
Intangible assets		
Software	7,902	9,167
Software in progress	7,560	41,567
Right of using patent	19,291	14,791
Total intangible assets	34,753	65,526
Investments and other assets		
Investment securities	46,750	36,750
Lease deposits	69,163	64,666
Insurance funds	7,724	9,681
Deferred tax assets	15,998	16,837
Other	6,383	2,207
Allowance for doubtful accounts	(2,109)	(1,946)
Total investments and other assets	143,910	128,196
Total noncurrent assets	707,156	676,183
Total assets	2,212,798	2,079,231

(Thousands of yen)

	FY12/2011 (As of Dec. 31, 2011)	FY12/2012 (As of Dec. 31, 2012)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,200	18,085
Current portion of bonds	124,400	95,900
Current portion of long-term loans payable	158,200	116,400
Lease obligations	44,432	36,991
Accounts payable-other	59,714	56,411
Income taxes payable	22,867	69,753
Other	19,135	33,649
Total current liabilities	439,949	427,192
Noncurrent liabilities		
Bonds payable	209,100	113,200
Long-term loans payable	138,900	22,500
Lease obligations	59,190	23,204
Long-term lease deposited	55,741	50,537
Asset retirement obligations	4,792	4,871
Total noncurrent liabilities	467,724	214,313
Total liabilities	907,673	641,505
Net assets		
Shareholders’ equity		
Capital stock	588,418	593,017
Capital surplus	460,095	464,694
Retained earnings	242,767	342,390
Treasury stock	(258)	(270)
Total shareholders’ equity	1,291,023	1,399,832
Minority interests	14,101	37,892
Total net assets	1,305,124	1,437,725
Total liabilities and net assets	2,212,798	2,079,231

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Net sales	1,322,465	1,544,923
Cost of sales	455,911	517,194
Gross profit	866,554	1,027,729
Selling, general and administrative expenses	795,273	806,084
Operating income	71,280	221,644
Non-operating income		
Interest income	142	201
Rent income of real estate	84,652	78,640
Subsidy income	1,103	533
Reversal of allowance for doubtful accounts	-	162
Other	5,437	11,817
Total non-operating income	91,335	91,355
Non-operating expenses		
Interest expenses	12,774	8,782
Interest on bonds	2,644	2,756
Rent cost of real estate	84,652	78,640
Stock issuance cost	1,488	174
Bond issuance cost	2,156	-
Guarantee commission	1,283	1,308
Other	5,396	913
Total non-operating expenses	110,395	92,576
Ordinary income	52,220	220,423
Extraordinary income		
Reversal of allowance for doubtful accounts	23	-
Gain on reversal of subscription rights to shares	1,187	-
Gain on negative goodwill	4,274	-
Total extraordinary income	5,486	-
Extraordinary loss		
Loss on retirement of noncurrent assets	170	11
Loss on abandonment of noncurrent assets	55	345
Loss on valuation of investment securities	-	9,999
Loss on cancellation of lease contracts	26	0
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,073	-
Total extraordinary losses	1,325	10,356
Income before income taxes and minority interests	56,381	210,066
Income taxes-current	41,237	91,284
Income taxes-deferred	(10,297)	(4,631)
Total income taxes	30,940	86,652
Income before minority interests	25,440	123,414
Minority interests in income	8,826	23,791
Net income	16,614	99,623

Consolidated Statements of Comprehensive Income

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Income before minority interests	25,440	123,414
Other comprehensive income		
Total other comprehensive income	-	-
Comprehensive income	25,440	123,414
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	16,614	99,623
Comprehensive income attributable to minority interests	8,826	23,791

(3) Consolidated Statements of Changes in Net Assets

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Shareholders’ equity		
Capital stock		
Balance at the beginning of current period	418,009	588,418
Changes of items during the period		
Issuance of new shares	149,855	-
Issuance of new shares-exercise of subscription rights to shares	20,554	4,599
Total changes of items during the period	170,409	4,599
Balance at the end of current period	588,418	593,017
Capital surplus		
Balance at the beginning of current period	289,706	460,095
Changes of items during the period		
Issuance of new shares	149,855	-
Issuance of new shares-exercise of subscription rights to shares	20,534	4,599
Total changes of items during the period	170,389	4,599
Balance at the end of current period	460,095	464,694
Retained earnings		
Balance at the beginning of current period	233,400	242,767
Changes of items during the period		
Dividends from surplus	(7,247)	-
Net income	16,614	99,623
Total changes of items during the period	9,367	99,623
Balance at the end of current period	242,767	342,390
Treasury stock		
Balance at the beginning of current period	(258)	(258)
Changes of items during the period		
Purchase of treasury stock	-	(11)
Total changes of items during the period	-	(11)
Balance at the end of current period	(258)	(270)
Total shareholders’ equity		
Balance at the beginning of current period	940,857	1,291,023
Changes of items during the period		
Issuance of new shares	299,710	-
Purchase of treasury stock	-	(11)
Issuance of new shares-exercise of subscription rights to shares	41,088	9,198
Dividends from surplus	(7,247)	-
Net income	16,614	99,623
Total changes of items during the period	350,165	108,809
Balance at the end of current period	1,291,023	1,399,832

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Subscription rights to shares		
Balance at the beginning of current period	-	-
Changes of items during the period		
Issuance of subscription rights to shares	1,187	-
Lapse of subscription rights to shares	(1,187)	-
Total changes of items during the period	-	-
Balance at the end of current period	-	-
Minority interests		
Balance at the beginning of current period	-	14,101
Changes of items during the period		
Net changes of items other than shareholders' equity	14,101	23,791
Total changes of items during the period	14,101	23,791
Balance at the end of current period	14,101	37,892
Total net assets		
Balance at the beginning of current period	940,857	1,305,124
Changes of items during the period		
Issuance of new shares	299,710	-
Purchase of treasury stock	-	(11)
Issuance of new shares-exercise of subscription rights to shares	41,088	9,198
Dividends from surplus	(7,247)	-
Net income	16,614	99,623
Issuance of subscription rights to shares	1,187	-
Lapse of subscription rights to shares	(1,187)	-
Net changes of items other than shareholders' equity	14,101	23,791
Total changes of items during the period	364,266	132,601
Balance at the end of current period	1,305,124	1,437,725

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	56,381	210,066
Depreciation and amortization	201,199	158,184
Increase (decrease) in allowance for doubtful accounts	8,413	(92)
Interest and dividends income	(142)	(201)
Interest expenses paid on loans and bonds	15,418	11,539
Gain on negative goodwill	(4,274)	-
Subsidy income	(1,103)	(533)
Share-based compensation expenses	967	-
Loss (gain) on sales and valuation of investment securities	-	9,999
Loss on retirement of noncurrent assets	170	11
Loss on abandonment of noncurrent assets	55	345
Loss (gain) on cancellation of insurance contract	4,376	-
Stock issuance cost	1,488	174
Loss on cancellation of leases	26	0
Gain on reversal of subscription rights to shares	(1,187)	-
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,073	-
Decrease (increase) in notes and accounts receivable-trade	(55,473)	47,213
Decrease (increase) in inventories	(4,540)	1,150
Increase (decrease) in notes and accounts payable-trade	5,112	6,885
Decrease (increase) in prepaid expenses	(38,697)	2,296
Increase (decrease) in accounts payable-other	(4,065)	3,733
Other, net	81	6,537
Subtotal	185,278	457,311
Interest and dividends income received	142	201
Interest expenses paid	(15,256)	(11,577)
Subsidies received	-	4,761
Income taxes paid	(30,180)	(45,900)
Income taxes refund	-	1,405
Net cash provided by (used in) operating activities	139,984	406,200

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(79,688)	(103,695)
Proceeds from sales of property, plant and equipment	30	25
Purchase of investment securities	(10,000)	-
Purchase of intangible assets	(7,931)	(43,884)
Purchase of insurance funds	(1,957)	(1,957)
Proceeds from cancellation of insurance funds	7,980	-
Payments for lease and guarantee deposits	(496)	(705)
Proceeds from collection of lease and guarantee deposits	-	5,203
Repayments of long-term deposits received	-	(5,203)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	14,156	-
Net cash provided by (used in) investing activities	(77,905)	(150,217)
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	200,000	250,000
Decrease in short-term loans payable	(217,200)	(250,000)
Proceeds from long-term loans payable	150,000	-
Repayment of long-term loans payable	(140,300)	(158,200)
Proceeds from issuance of bonds	195,924	-
Redemption of bonds	(101,000)	(124,400)
Repayments of lease obligations	(44,404)	(44,491)
Repayments of installment payables	(15,968)	-
Proceeds from issuance of common stock	298,595	-
Proceeds from issuance of stock resulting from exercise of subscription rights to shares	40,713	9,023
Proceeds from issuance of subscription rights to shares	220	-
Purchase of treasury stock	-	(11)
Cash dividends paid	(7,017)	(22)
Net cash provided by (used in) financing activities	359,562	(318,102)
Net increase (decrease) in cash and cash equivalents	421,641	(62,119)
Cash and cash equivalents at beginning of period	671,028	1,092,670
Cash and cash equivalents at end of period	1,092,670	1,030,551

(5) Going Concern Assumption

Not applicable.

(6) Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Item	FY12/2012 (Jan. 1 – Dec. 31, 2012)
1. Scope of consolidation	All subsidiaries are included in the consolidation. (1) Number of consolidated subsidiaries: 1 (2) Name of consolidated subsidiaries: Bio Medica Solution Co., Ltd.
2. Application of equity method	There is no equity-method subsidiary and affiliate.
3. Balance sheet date of consolidated subsidiary	The fiscal year of the consolidated subsidiary Bio Medica Solution Co., Ltd. ends on November 30, 2012. The financial statements of this subsidiary as of its balance sheet date are used for consolidation purpose where appropriate adjustments are made for significant transactions during December 1 to December 31, the balance sheet date of the consolidated financial statements.
4. Accounting standards (1) Valuation standards and methods for principal assets	Securities Available-for-sale securities Securities without market quotations: Moving average cost method. Raw materials First-in first-out cost method. (The carrying value on the balance sheet is written down to reflect the effect of lower profit margins.)
(2) Depreciation and amortization method for major depreciable assets	1) Property, plant and equipment (excluding lease assets) Declining-balance method except for buildings (excluding attached structures), which are accounted for by the straight-line method. Useful lives of principal assets are as follows: Buildings: 14 to 17 years Attached structures: 8 to 18 years Tools, furniture and fixtures: 3 to 10 years 2) Intangible assets (excluding lease assets) Straight-line method. Amortization periods of principal assets are as follows: Software: 5 years Right of using patent: Shorter of 8 years or contract period 3) Lease assets Lease assets associated with finance lease transactions where there is no transfer of ownership: The straight-line method is applied over the lease period used as the useful life of the assets with no residual value.
(3) Accounting for significant deferred assets	1) Stock issuance cost Expensed when they are incurred. 2) Bond issuance cost Expensed when they are incurred.

Item	FY12/2012 (Jan. 1 – Dec. 31, 2012)
(4) Recognition of significant allowances	Allowance for doubtful accounts To prepare for credit losses on receivables, an allowance equal to the estimated amount of uncollectible receivables is provided for general receivables based on the historical write-off ratio and for bad receivables based on a case-by-case determination of collectibility.
(5) Cash and cash equivalents in the consolidated statements of cash flows	Cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.
(6) Other significant accounting policies in the preparation of consolidated financial statements	Accounting for consumption taxes The consumption taxes are accounted by the tax-exclusion method.

(7) Reclassifications

FY12/2012 (Jan. 1 – Dec. 31, 2012)
The Company has adopted the “Accounting Standard for Accounting Changes and Error Corrections” ASBJ Statement No. 24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009) for accounting method revisions and for corrections to past errors from the beginning of the current fiscal year.

(8) Notes to Consolidated Financial Statements

Segment and Other Information

a. Segment information

1. Overview of reportable segments

Segments used for financial reporting are tella'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.

The Company has two reportable segments that are based on services provided to customers: Cell Therapy Technology Development Business and Cell Therapy Support Business.

The Cell Therapy Technology Development Business involves the provision of unique cancer treatment technologies and know-how, chiefly the DC vaccine therapy. The Cell Therapy Support Business involves the operation of cell processing facilities by contract, the provision of maintenance and management services for these facilities, and others.

2. Methods of calculation of net sales, profit or loss, assets, liabilities and other items for each reportable segment

The accounting treatment methods for reportable segments are generally the same as those listed in "Significant Accounting Policies in the Preparation of Consolidated Financial Statements."

Profits for reportable segments are operating income figures.

3. Information related to net sales, profit or loss, assets, liabilities and other items for each reportable segment

FY12/2011 (Jan. 1 – Dec. 31, 2011) (Thousands of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cell Therapy Technology Development	Cell Therapy Support	Subtotal			
Net sales						
External sales	1,193,687	128,778	1,322,465	1,322,465	-	1,322,465
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,193,687	128,778	1,322,465	1,322,465	-	1,322,465
Segment profit	45,544	25,736	71,280	71,280	-	71,280
Segment assets	2,154,704	60,123	2,214,827	2,214,827	(2,029)	2,212,798
Segment liabilities	876,781	31,921	908,703	908,703	(1,029)	907,673
Other items						
Depreciation	191,330	2,188	193,519	193,519	-	193,519
Increase in property, plant and equipment and intangible assets	136,440	17,520	153,960	153,960	-	153,960

Notes: 1. (1) Adjustment to segment assets amounting to -2,029 thousand yen represents eliminations for inter-segment transactions.
(2) Adjustment to segment liabilities amounting to -1,029 thousand yen represents eliminations for inter-segment transactions.
2. Total segment profit is adjusted to be consistent with operating income shown on the consolidated statements of income.

FY12/2012 (Jan. 1 – Dec. 31, 2012) (Thousands of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cell Therapy Technology Development	Cell Therapy Support	Subtotal			
Net sales						
External sales	1,211,962	332,961	1,544,923	1,544,923	-	1,544,923
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,211,962	332,961	1,544,923	1,544,923	-	1,544,923
Segment profit	152,426	69,217	221,644	221,644	-	221,644
Segment assets	1,952,929	127,301	2,080,231	2,080,231	(1,000)	2,079,231
Segment liabilities	589,989	51,516	641,505	641,505	-	641,505
Other items						
Depreciation	147,102	5,460	152,563	152,563	-	152,563
Increase in property, plant and equipment and intangible assets	138,291	5,226	143,517	143,517	-	143,517

Notes: 1. Adjustment to segment assets amounting to -1,000 thousand yen represents eliminations for inter-segment transactions.
2. Total segment profit is adjusted to be consistent with operating income shown on the consolidated statements of income.

b. Related information

FY12/2011 (Jan. 1 – Dec. 31, 2011)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

Not applicable because there are no sales outside Japan.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major client

(Thousands of yen)

Name	Net sales	Related segments
SEREN CLINIC Nagoya	165,237	Cell Therapy Technology Development Cell Therapy Support
SEREN CLINIC Kobe	164,110	Cell Therapy Technology Development Cell Therapy Support
SEREN CLINIC Tokyo	156,852	Cell Therapy Technology Development Cell Therapy Support

FY12/2012 (Jan. 1 – Dec. 31, 2012)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

Not applicable because there are no sales outside Japan.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major client

(Thousands of yen)

Name	Net sales	Related segments
SEREN CLINIC Tokyo	184,100	Cell Therapy Technology Development Cell Therapy Support
Tokyo Midtown Medical Center	173,067	Cell Therapy Technology Development Cell Therapy Support
SEREN CLINIC Nagoya	164,412	Cell Therapy Technology Development Cell Therapy Support

c. Information related to impairment losses of noncurrent assets for each reportable segment

FY12/2011 (Jan. 1 – Dec. 31, 2011)
Not applicable.

FY12/2012 (Jan. 1 – Dec. 31, 2012)
Not applicable.

d. Information related to goodwill amortization and the unamortized balance for each reportable segment

FY12/2011 (Jan. 1 – Dec. 31, 2011)
Not applicable.

FY12/2012 (Jan. 1 – Dec. 31, 2012)
Not applicable.

e. Information related to gain on negative goodwill for each reportable segment

FY12/2011 (Jan. 1 – Dec. 31, 2011)

In the Cell Therapy Support segment, a significant gain on negative goodwill was recorded because of the purchase of stock of Bio Medica Solution Co., Ltd. in the current fiscal year to make this company a consolidated subsidiary.

Accordingly, gain on negative goodwill of 4,274 thousand yen was recorded in the current fiscal year.

FY12/2012 (Jan. 1 – Dec. 31, 2012)
Not applicable.

Per-share Information

(Yen)

FY12/2011 (Jan. 1 – Dec. 31, 2011)		FY12/2012 (Jan. 1 – Dec. 31, 2012)	
Net assets per share	98.75	Net assets per share	106.56
Net income per share	1.35	Net income per share	7.59
Diluted net income per share	1.32	Diluted net income per share	7.48

Notes: 1. Basis for calculation of net assets per share

Item	FY12/2011 (As of Dec. 31, 2011)	FY12/2012 (As of Dec. 31, 2012)
Total net assets carried on the consolidated balance sheets (Thousands of yen)	1,305,124	1,437,725
Net assets applicable to common stock (Thousands of yen)	1,291,023	1,399,832
Breakdown of differences (Thousands of yen) Minority interests	14,101	37,892
Number of shares of common stock outstanding (Thousands of shares)	13,074	13,137
Number of shares of treasury common stock (Thousands of shares)	0	0
Number of shares of common stock used in calculation of net assets per share (Thousands of shares)	13,073	13,136

2. Basis for calculation of net income per share and diluted net income per share

Item	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
(1) Net income per share		
Net income carried on the consolidated statements of income (Thousands of yen)	16,614	99,623
Net income applicable to common stock (Thousands of yen)	16,614	99,623
Amount not available to shareholders of common stock (Thousands of yen)	-	-
Average number of shares of common stock outstanding during period (Thousands of shares)	12,304	13,124
(2) Diluted net income per share		
Adjusted to net income (Thousands of yen)	-	-
Increase in common stock (Thousands of shares)	309	187
Summary of potential stock not included in the calculation of diluted net income per share since there was no dilutive effect	Subscription rights to shares No.5: 10,000 Subscription rights to shares No.6: 80,000 Subscription rights to shares No.7: 44,000 All of these stock acquisition rights were extinguished during the previous fiscal year.	-

Material Subsequent Events

Not applicable.

5. Non-consolidated Financial Statements

(1) Balance Sheets

(Thousands of yen)

	FY12/2011 (As of Dec. 31, 2011)	FY12/2012 (As of Dec. 31, 2012)
Assets		
Current assets		
Cash and deposits	1,079,885	962,793
Accounts receivable-trade	316,137	256,700
Prepaid expenses	52,727	49,945
Accounts receivable-other	18,208	23,046
Deferred tax assets	3,941	7,645
Other	1,444	1,761
Allowance for doubtful accounts	(8,297)	(8,297)
Total current assets	1,464,046	1,293,595
Noncurrent assets		
Property, plant and equipment		
Buildings, net	246,649	211,809
Tools, furniture and fixtures, net	171,018	200,920
Lease assets, net	95,493	54,633
Total property, plant and equipment	513,161	467,362
Intangible assets		
Software	7,902	9,167
Software in progress	7,560	41,567
Right of using patent	19,291	14,791
Total intangible assets	34,753	65,526
Investments and other assets		
Investment securities	46,750	36,750
Stocks of subsidiaries and affiliates	1,000	1,000
Lease deposits	67,433	62,229
Insurance funds	7,724	9,681
Deferred tax assets	15,684	16,531
Other	6,259	2,197
Allowance for doubtful accounts	(2,109)	(1,946)
Total investments and other assets	142,742	126,443
Total noncurrent assets	690,657	659,333
Total assets	2,154,704	1,952,929

(Thousands of yen)

	FY12/2011 (As of Dec. 31, 2011)	FY12/2012 (As of Dec. 31, 2012)
Liabilities		
Current liabilities		
Accounts payable-trade	4,515	7,175
Current portion of bonds	124,400	95,900
Current portion of long-term loans payable	158,200	116,400
Lease obligations	44,432	36,991
Accounts payable-other	56,268	51,928
Income taxes payable	2,925	47,939
Accrued consumption taxes	11,434	10,654
Other	6,879	8,685
Total current liabilities	409,057	375,675
Noncurrent liabilities		
Bonds payable	209,100	113,200
Long-term loans payable	138,900	22,500
Lease obligations	59,190	23,204
Long-term lease deposited	55,741	50,537
Asset retirement obligations	4,792	4,871
Total noncurrent liabilities	467,724	214,313
Total liabilities	876,781	589,989
Net assets		
Shareholders' equity		
Capital stock	588,418	593,017
Capital surplus		
Legal capital surplus	460,095	464,694
Total capital surplus	460,095	464,694
Retained earnings		
Other retained earnings		
Retained earnings brought forward	229,666	305,498
Total retained earnings	229,666	305,498
Treasury stock	(258)	(270)
Total shareholders' equity	1,277,922	1,362,940
Total net assets	1,277,922	1,362,940
Total liabilities and net assets	2,154,704	1,952,929

(2) Statements of Income

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Operating revenues	1,193,687	1,211,962
Operating cost	402,369	327,920
Operating gross profit	791,317	884,042
Selling, general and administrative expenses		
Directors' compensations	79,020	83,790
Salaries and allowances	137,900	130,422
Legal welfare expenses	21,975	23,054
Advertising expenses	165,871	130,949
Entertainment expenses	10,882	11,669
Traveling and transportation expenses	31,743	34,356
Commission fee	25,644	27,620
Compensations	80,571	61,518
Depreciation	5,717	5,386
Contribution	6,280	161
Research and development expenses	100,795	145,535
Provision of allowance for doubtful accounts	8,297	-
Other	71,072	77,151
Total selling, general and administrative expenses	745,773	731,615
Operating income	45,544	152,426
Non-operating income		
Interest income	138	510
Rent income of real estate	84,652	78,640
Subsidy income	1,103	533
Reversal of allowance for doubtful accounts	-	162
Other	1,326	530
Total non-operating income	87,220	80,376
Non-operating expenses		
Interest expenses	12,774	8,782
Interest on bonds	2,644	2,756
Bond issuance cost	2,156	-
Rent cost of real estate	84,652	78,640
Stock issuance cost	1,488	174
Guarantee commission	1,283	1,308
Other	4,880	36
Total non-operating expenses	109,879	91,699
Ordinary income	22,885	141,103
Extraordinary income		
Reversal of allowance for doubtful accounts	23	-
Gain on reversal of subscription rights to shares	1,187	-
Total extraordinary income	1,211	-

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Extraordinary loss		
Loss on retirement of noncurrent assets	170	11
Loss on abandonment of noncurrent assets	55	345
Loss on valuation of investment securities	-	9,999
Loss on cancellation of lease contracts	26	0
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,073	-
Total extraordinary losses	1,325	10,356
Income before income taxes	22,771	130,746
Income taxes-current	27,916	59,465
Income taxes-deferred	(8,658)	(4,550)
Total income taxes	19,257	54,915
Net income	3,513	75,831

(3) Statements of Changes in Net Assets

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Shareholders' equity		
Capital stock		
Balance at the beginning of current period	418,009	588,418
Changes of items during the period		
Issuance of new shares	149,855	-
Issuance of new shares-exercise of subscription rights to shares	20,554	4,599
Total changes of items during the period	170,409	4,599
Balance at the end of current period	588,418	593,017
Capital surplus		
Legal capital surplus		
Balance at the beginning of current period	289,706	460,095
Changes of items during the period		
Issuance of new shares	149,855	-
Issuance of new shares-exercise of subscription rights to shares	20,534	4,599
Total changes of items during the period	170,389	4,599
Balance at the end of current period	460,095	464,694
Total capital surplus		
Balance at the beginning of current period	289,706	460,095
Changes of items during the period		
Issuance of new shares	149,855	-
Issuance of new shares-exercise of subscription rights to shares	20,534	4,599
Total changes of items during the period	170,389	4,599
Balance at the end of current period	460,095	464,694
Retained earnings		
Other retained earnings		
Retained earnings brought forward		
Balance at the beginning of current period	233,400	229,666
Changes of items during the period		
Dividends from surplus	(7,247)	-
Net income	3,513	75,831
Total changes of items during the period	(3,733)	75,831
Balance at the end of current period	229,666	305,498
Total retained earnings		
Balance at the beginning of current period	233,400	229,666
Changes of items during the period		
Dividends from surplus	(7,247)	-
Net income	3,513	75,831
Total changes of items during the period	(3,733)	75,831
Balance at the end of current period	229,666	305,498

(Thousands of yen)

	FY12/2011 (Jan. 1 – Dec. 31, 2011)	FY12/2012 (Jan. 1 – Dec. 31, 2012)
Treasury stock		
Balance at the beginning of current period	(258)	(258)
Changes of items during the period		
Purchase of treasury stock	-	(11)
Total changes of items during the period	-	(11)
Balance at the end of current period	(258)	(270)
Total shareholders’ equity		
Balance at the beginning of current period	940,857	1,277,922
Changes of items during the period		
Issuance of new shares	299,710	-
Issuance of new shares-exercise of subscription rights to shares	41,088	9,198
Dividends from surplus	(7,247)	-
Purchase of treasury stock	-	(11)
Net income	3,513	75,831
Total changes of items during the period	337,064	85,018
Balance at the end of current period	1,277,922	1,362,940
Subscription rights to shares		
Balance at the beginning of current period	-	-
Changes of items during the period		
Issuance of subscription rights to shares	1,187	-
Lapse of subscription rights to shares	(1,187)	-
Total changes of items during the period	-	-
Balance at the end of current period	-	-
Total net assets		
Balance at the beginning of current period	940,857	1,277,922
Changes of items during the period		
Issuance of new shares	299,710	-
Issuance of new shares-exercise of subscription rights to shares	41,088	9,198
Dividends from surplus	(7,247)	-
Purchase of treasury stock	-	(11)
Net income	3,513	75,831
Issuance of subscription rights to shares	1,187	-
Lapse of subscription rights to shares	(1,187)	-
Total changes of items during the period	337,064	85,018
Balance at the end of current period	1,277,922	1,362,940