Consolidated Financial Statements for the Fiscal Year Ended December 31, 2013

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

February 14, 2014

Link and Motivation Inc.
3-7-3 Ginza, Chuo-ku, Tokyo 104-0061
http://www.lmi.ne.jp

Stock exchange listing: Tokyo, First Section
Code number: 2170

Representative: Yoshihisa Ozasa, President and Representative Director
Contact: Shunichi Ohno, Managing Executive Officer and Manager of Corporate Design Division
Phone: +81-3-3538-8558

Ordinary General Meeting of Shareholders (scheduled): March 15, 2014
Start of distribution of dividends (scheduled): March 25, 2014
Filing of Securities Report (*Yuka Shoken Hokokusho*) (scheduled): March 17, 2014
Supplementary documents for quarterly results: No
Quarterly results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for 2013 (January 1, 2013 - December 31, 2013)

(1) Sales and Income (Percentages represent change compared with the previous year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
2013	22,383	19.7	1,558	35.6	1,510	33.2
2012	18,705	78.0	1,149	41.5	1,133	39.8

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/Total assets (%)	Ordinary income/Net sales (%)
2013	832	17.5	859.19	—	21.9	14.6	7.0
2012	708	18.7	725.36	—	22.5	11.0	6.1

(Reference) Equity in earnings of affiliates: ¥— million (2012: ¥— million)

Note: The Company implemented stock splits of 2 shares for each 1 share of common stock with effective dates of July 1, 2012, May 1, 2013 and December 1, 2013. Accordingly, earnings per share have been calculated as though the stock splits had occurred at the beginning of the previous fiscal year.

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net assets/ Total assets (%)	Net assets per share (¥)
2013	10,371	3,794	36.6	3,917.06
2012	10,303	3,248	31.5	3,352.87

(Reference) Net worth: As of December 31, 2013: ¥3,794 million; As of December 31, 2012: ¥3,248 million

Note: The Company implemented stock splits of 2 shares for each 1 share of common stock with effective dates of July 1, 2012, May 1, 2013 and December 1, 2013. Accordingly, net assets per share have been calculated as though the stock splits had occurred at the beginning of the previous fiscal year.

(3) Cash Flow

	Cash flow from operating activities (¥ million)	Cash flow from investing activities (¥ million)	Cash flow from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
2013	461	(403)	(1,970)	525
2012	1,137	(2,095)	493	2,437

2. Dividends

	Dividends per share					Total dividends paid (full year) (¥ million)	Payout ratio (%)	Dividends/ Net assets (%)
	1st Qtr.	Interim	3rd Qtr.	Year-end	Full year			
2012	500.00	600.00	300.00	300.00	—	269	38.1	8.3
2013	300.00	150.00	150.00	90.00	—	305	36.7	8.0
2014 (est.)	90.00	0.90	0.90	0.90	—		—	

Notes:
1. The Company implemented a stock split of 2 shares for each 1 share of common stock with an effective date of July 1, 2012. Accordingly, dividends per share for 2012 takes the effect of this stock split into account.
2. The Company implemented stock splits of 2 shares for each 1 share of common stock with effective dates of May 1, 2013 and December 1, 2013. Accordingly, dividends per share for 2013 takes the effect of these stock splits into account.
3. The Company has resolved to implement a stock split of 100 shares for each 1 share of common stock with an effective date of April 1, 2014. Accordingly, dividends per share for 2014 takes the effect of this stock split into account.

3. Forecast of Results for 2014 (January 1, 2014 - December 31, 2014)

(Percentages represent change compared to the previous interim period or fiscal year, as applicable)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Interim period	—	—	—	—	—	—	—	—	—
Full-year	25,000	11.7	1,820	16.8	1,800	19.2	1,000	20.1	10.32

Notes:

1. There is no forecast of results for the interim period. See “Outlook for 2014” in “Results of Operations” on page 8 for details.
2. The Company has resolved to implement a stock split of 100 shares for each 1 share of common stock with an effective date of April 1, 2014. Accordingly, earnings per share for 2014 takes the effect of this stock split into account.

Notes

(1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries due to Changes in the Scope of Consolidation): Yes

Added: 1 company (Daiei Education System Co., Ltd.)

Removed: 1 company (Daiei Education System Co., Ltd.)

(2) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements

(a) Changes in accounting policies due to change in accounting standards: Yes

(b) Changes in accounting policies other than (a) above: No

(c) Changes in accounting estimates: No

(d) Restatements: No

Note: As a result of the revision of the corporate income tax, from the beginning of the period the Company and its consolidated subsidiaries have changed to a depreciation method based on the post-revision corporate income tax from property and equipment acquired on or after January 1, 2013.

(3) Number of Shares Issued and Outstanding (Common Stock)

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

Year ended December 31, 2013: 1,079,680; Year ended December 31, 2012: 1,079,680

(b) Number of treasury shares at the end of the period:

Year ended December 31, 2013: 110,880; Year ended December 31, 2012: 110,880

(c) Average number of shares outstanding:

Year ended December 31, 2013: 968,800; Year ended December 31, 2012: 976,708

Notes:

1. The Company implemented a stock split of 2 shares for each 1 share of common stock with an effective date of July 1, 2012. Accordingly, the number of shares for the year ended December 31, 2012 has been restated to reflect the stock split.
2. The Company implemented stock splits of 2 shares for each 1 share of common stock with effective dates of May 1, 2013 and December 1, 2013. Accordingly, the number of shares for the year ended December 31, 2012 takes the effect of these stock splits into account.

(Reference) Summary of Non-consolidated Results

1. Non-consolidated Results for 2013 (January 1, 2013 – December 31, 2013)

(1) Sales and Income (Percentages represent change compared with the previous year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
2013	5,019	9.8	444	(2.6)	401	(6.3)
2012	4,569	8.1	456	(3.3)	429	(18.9)

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
2013	179	(25.5)	184.84	—
2012	240	(32.0)	246.00	—

Note: The Company implemented stock splits of 2 shares for each 1 share of common stock with effective dates of July 1, 2012, May 1, 2013 and December 1, 2013. Accordingly, earnings per share has been calculated as though the stock splits had occurred at the beginning of the previous fiscal year.

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net assets / Total assets (%)	Net assets per share (¥)
2013	7,135	2,356	33.0	2,432.89
2012	7,405	2,470	33.4	2,550.38

(Reference) Net worth: ¥2,356 million (2012: ¥2,470 million)

Note: The Company implemented stock splits of 2 shares for each 1 share of common stock with effective dates of July 1, 2012, May 1, 2013 and December 1, 2013. Accordingly, net assets per share has been calculated as though the stock splits had occurred at the beginning of the previous fiscal year.

*** Presentation of Implementation Status of Auditing Procedures**

As of the date of publication of these financial statements, the auditing procedures for financial statements pursuant to the Financial Instruments and Exchange Act had not been completed.

*** Explanation on Proper Use of the Forecast of Results and Other Special Instructions**

Consolidated forecasts and other statements regarding the future contained in this document are based on currently available information to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors. For information regarding the conditions of assumptions behind the results forecasts and notes regarding their use, please refer to "(1) Analysis of Results of Operations" on page 5.

Contents of Attachments

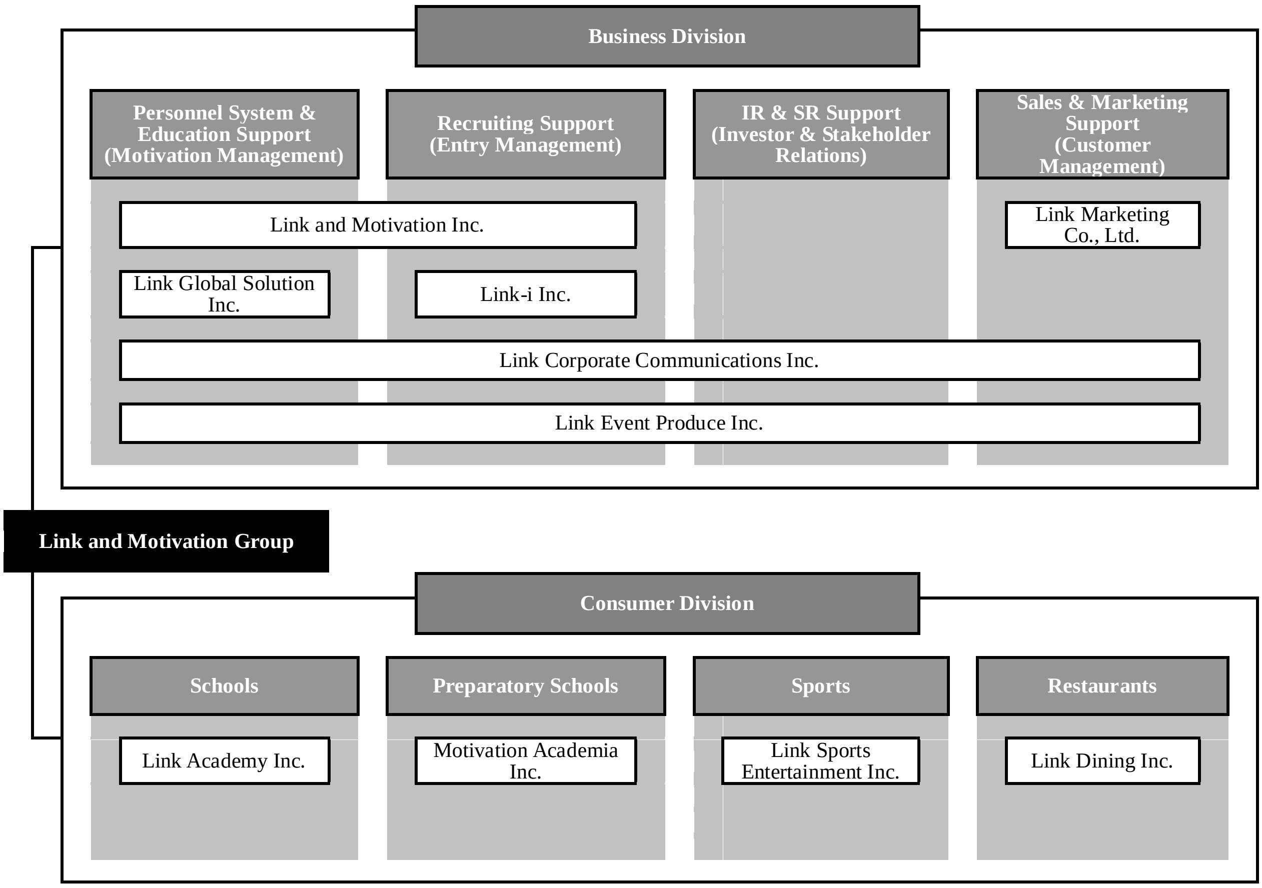
1. Results of Operations

(1) Analysis of Results of Operations

In 2013, the Japanese economy was on a demand-led recovery track as the yen weakened and stock prices rose against the backdrop of positive expectations for the economic policies of the Abe administration, or "Abenomics," the pace of improvement in employment and income conditions and increases in investment quickened due to improved corporate earnings, and signs of recovery in consumer spending became apparent with the upturn in personal incomes.

In this economic environment, net sales and every level of income of the Link and Motivation Group were firm in 2013. Consolidated net sales for 2013 were ¥22,383,970 thousand (a 19.7% increase compared with the previous year), gross profit was ¥8,742,170 thousand (a 19.6% increase), operating income was ¥1,558,100 thousand (a 35.6% increase), ordinary income was ¥1,510,373 thousand (a 33.2% increase), and net income was ¥832,385 thousand (a 17.5% increase).

An overview of general conditions by segment and field for 2013 is provided below. The segments of the Link and Motivation Group and respective service areas are as follows.



Business Division

This segment offers one-stop services that support the management and growth of companies by applying the motivation engineering technology essential for corporate innovation to their communication with the various stakeholders of companies including employees, job applicants, shareholders, investors and customers.

Businesses in all fields performed well in 2013, resulting in substantial gains compared with the previous year. Segment sales were ¥14,137,214 thousand (a 14.8% increase) and segment income was ¥5,689,996 thousand (a 13.0% increase). An overview of general conditions by service area for 2013 is as follows.

Personnel System & Education Support (Motivation Management)

In the Motivation Management business, net sales for 2013 were ¥3,405,022 thousand (a 6.4% increase) and gross profit was ¥2,202,066 thousand (a 10.1% increase).

This business offers services to create highly motivated organizations including personnel training, organization and system design, corporate vision verbalization and support for its dissemination, and support for corporate events that aim to develop personnel and vitalize organizations.

In 2013, sales were solid as the business took advantage of the growth trend in corporate budgets for personnel and training. The business maintained high profitability from strong sales of new employee and other training services for large corporations and consulting in areas including building personnel systems and membership services for small and mid-sized companies.

The Motivation Management business will concentrate on enhancing its service lineup and work to expand its one-stop services from recruiting to training to deal with further increases in corporate human resources and training budgets as the economy recovers.

Recruiting Support (Entry Management)

In the Entry Management business, net sales for 2013 were ¥3,013,631 thousand (an 18.3% increase) and gross profit was ¥1,780,647 thousand (a 16.5% increase).

This business offers recruitment strategy planning services aimed at realizing the best matches between companies and new graduate applicants in the recruitment process, and assistance with the execution of those strategies.

In 2013, to capture a market environment that is changing from large-scale batch recruiting of new graduates to portfolio recruiting, the Entry Management business promoted recruitment strategy planning, consulting on the recruitment process that uses a database for successful recruiting and the new service area of one-stop services for new graduate placement and introduction. As a result, performance was very strong, with substantial increases in the number of customers and sales per customer.

The Entry Management business will continue to respond flexibly to changes in general conditions, such as the change in the time frame for new graduate recruiting activities, to strengthen its services to achieve the best match between customers and applicants, in addition to focusing on further expanding sales of new graduate placement and introduction services.

IR & SR Support (Investor & Stakeholder Relations)

In the Investor & Stakeholder Relations business, net sales for 2013 were ¥623,490 thousand (a 0.6% increase) and gross profit was ¥329,836 thousand (a 3.1% increase).

This business provides IR consulting services designed to achieve effective and efficient communication with investors, including annual report production and video distribution of business results briefings.

In 2013, although sales of webcast services fell below the previous year’s level, sales were firm for IR tools in print media such as shareholder reports. As a result, net sales and gross profit were on par with the previous year.

The Investor & Stakeholder Relations business will focus on brushing up its web-related services and capture the trend of increasing needs for tools for individual investors.

Sales & Marketing Support (Customer Management)

In the Customer Management business, net sales were ¥7,095,069 thousand (a 19.3% increase) and gross profit was ¥1,377,446 thousand (a 16.3% increase). (Note: Because Link Marketing Inc. (formerly Sales Marketing Co., Ltd.) was added to the scope of consolidation from February 2012, its results for the previous year include the period from February to December 2012.)

This business is a one-stop source for corporate sales and marketing needs. Services range from consulting, involving the proposal, dissemination, promotion planning and implementation support for corporate brand strategies and proposals for corporate sales strategies, to dispatch and referral services that meet human resource needs at the point of sale.

In 2013, both net sales and gross profit increased substantially as the business captured rising needs for staff reinforcement, with significant increases in the number of staff dispatched and the number of customers for temp staffing services for retail apparel stores, major mass merchandisers of home appliances and mobile phone shops, which is a core service.

Using the Link and Motivation Group's motivation engineering technology, this business will create a framework to enable long-term dispatch of personnel who are attractive to customers by nurturing temporary staff and focusing on their long-term dispatch, and setting up a framework to conduct faster and more accurate matching of temp staff with customers. The business will also focus on creating a new business model by setting up a mechanism to provide employment opportunities to customers of the Schools business.

Consumer Division

In this segment, the Link and Motivation Group applies its core motivation engineering technology to provide services in consumer businesses including schools, preparatory schools, a sporting organization and a restaurant.

With the impact of the acquisition of all the shares of Daiei Education System Co., Ltd. on January 1, 2013, results for 2013 grew substantially. Segment sales were ¥9,177,279 thousand (a 33.9% increase) and segment income was ¥3,265,847 thousand (a 34.5% increase). An overview of general conditions by service area for 2013 is as follows.

Schools/Preparatory Schools

In the Schools and Preparatory Schools businesses, net sales for 2013 were ¥8,496,855 thousand (a 36.8% increase) and gross profit was ¥3,036,273 thousand (a 36.3% increase).

The Schools business offers comprehensive personal computer training courses and courses to acquire qualifications through Aviva Co., Ltd. and newly acquired Daiei Education System. The Preparatory Schools business offers courses to prepare students for school entrance exams and to teach portable skills through preparatory schools managed by Motivation Academia Inc.

In 2013, sales and gross profit in the Schools business both increased substantially, with stable performance from comprehensive personal computer courses, which the business has provided for some time as its mainstay service, in addition to firm sales of a service that allows students to take the qualification courses of Daiei Education System, which was added to the scope of consolidation, in Aviva personal computer classrooms, which operate nationwide. In the Preparatory Schools business, the number of students increased significantly due to factors including referrals by registered students who are satisfied with Motivation Academia's instruction performance. Both sales and gross profit therefore increased.

To drive further growth, Aviva and Daiei Education System merged on December 31, 2013 to establish Link Academy Inc., which will operate a total career school based on motivation. In addition to support for skills for a better career through various personal computer, qualification and language courses, the company will establish a position as a type of career school that did not previously exist, with total support ranging from career guidance to providing employment opportunities. In addition, the Preparatory Schools business aims to further raise the number of students and build a track record of performance in instruction.

Sports/Restaurant

In the Sports and Restaurant businesses, net sales for 2013 were ¥680,423 thousand (a 5.9% increase) and gross profit was ¥229,573 thousand (a 15.0% increase). Sales and gross profit are recorded in the Sports business by Link Sports Entertainment Inc., which operates a professional basketball team called Link Tochigi Brex, and in the Restaurant business by Link Dining Inc., which operates an Italian restaurant called Link Dining.

In the Sports business, sponsorship income from sponsor companies, which has a high profit margin, increased substantially. As a result, net sales and gross profit both increased compared with the previous year. Going forward, both businesses aim to undertake unique development using motivation engineering.

Outlook for 2014

On a consolidated basis, for 2014 we forecast net sales of ¥25,000 million (an increase of 11.7% year on year), operating income of ¥1,820 million (an increase of 16.8%), ordinary income of ¥1,800 million (an increase of 19.2%) and net income of ¥1,000 million (an increase of 20.1%).

We have not made a forecast of our results for the interim period due to the difficulty of precisely predicting clients' stances on investment in human resources and other factors. We will rapidly disclose quarterly financial information.

Moreover, we will promptly announce revisions to our previously announced forecast of earnings in the event of significant variation from actual results.

(2) Analysis of Financial Condition

Significant Accounting Policies

The Company’s consolidated and non-consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (Japanese GAAP). The significant accounting policies used in the Company’s consolidated financial statements are described in “4. Consolidated Financial Statements, (6) Basis of Presentation of Consolidated Financial Statements.” The significant accounting policies used in the Company’s non-consolidated financial statements are described in “5. Non-consolidated Financial Statements, (5) Significant Accounting Policies.” [Both omitted from English translation.] In preparing these consolidated and non-consolidated financial statements, the Company made estimates and judgments based on various factors that it considers reasonable given past financial results and conditions. However, because of inherent uncertainties and risks, actual results in the future may differ from these estimates and judgments.

Assets, Liabilities and Net Assets

Total assets as of December 31, 2013 were ¥10,371,397 thousand, an increase of ¥68,001 thousand from a year earlier, with increases in goodwill and accounts receivable from the acquisition of Daiei Education System Co., Ltd. partially offset by decreases in cash and deposits and short-term loans receivable due to the repayment of interest-bearing debt.

Total liabilities were ¥6,576,541 thousand, a decrease of ¥478,593 thousand from a year earlier. While accounts payable increased due to the acquisition of Daiei Education System Co., Ltd., long-term debt decreased due to the repayment of interest-bearing debt.

Net assets increased ¥546,594 thousand from a year earlier to ¥3,794,855 thousand. The principal factors in the change were an increase of ¥832,385 thousand in retained earnings from recording net income, partially offset by a decrease of ¥290,640 thousand in retained earnings due to payment of dividends.

Cash Flow

Cash and cash equivalents (“cash”) as of December 31, 2013 was ¥525,487 thousand, a decrease of ¥1,911,969 thousand compared with a year earlier. Cash flow for the year ended December 31, 2013 was as follows.

Cash Flow from Operating Activities

Net cash provided by operating activities decreased ¥675,826 thousand to ¥461,945 thousand. Principal factors providing cash were income before income taxes of ¥1,275,212 thousand and amortization of goodwill of ¥511,411 thousand. The principal factors using cash were income taxes paid of ¥438,116 thousand and an increase of ¥436,778 in notes and accounts receivable — trade.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥403,712 thousand, a net decrease of ¥1,691,626 thousand in cash from the previous year. The principal factors were payments for acquisition of property and equipment totaling ¥153,699 thousand, payments for acquisition of intangible fixed assets of ¥196,505 thousand and payments for acquisition of investment securities totaling ¥188,900 thousand.

Cash Flow from Financing Activities

Net cash used in financing activities was ¥1,970,202 thousand, a net decrease of ¥2,464,072 thousand in cash from the previous year. The principal factors were decreases of ¥1,588,170 thousand from repayment of long-term debt and

¥291,456 thousand from payment of cash dividends.

For reference:

Cash Flow Related Indicators

	2009	2010	2011	2012	2013
Net worth ratio (%)	62.4	69.1	36.1	31.5	36.6
Net worth ratio on market value basis (%)	118.6	140.6	63.4	82.5	203.0
Cash flow to interest-bearing debt (times)	3.32	0.42	2.18	2.51	3.97
Interest coverage ratio (times)	39.0	362.8	75.8	27.4	11.9

Net worth ratio: Net worth/Total assets

Net worth ratio on market value basis: Total market capitalization/Total assets

Cash flow to interest-bearing debt: Interest-bearing debt/Operating cash flow

Interest coverage ratio: Operating cash flow/Interest expense

Notes: 1. Each indicator is calculated on a consolidated basis.

2. Total market capitalization: Share price at end of period/number of shares at end of period

3. Operating cash flow: Cash flow from operating activities in statements of cash flow

4. Interest expense: Interest expense on statements on statements of cash flow

(3) Dividend Policy and Dividends for 2013 and 2014

The Company's basic dividend policy is to make more active and stable returns to shareholders while taking into account the future operating environment, investment plans and other factors. The Company will allocate retained earnings for investment in mergers and acquisitions, human resources and facilities for the purpose of expanding business and raising efficiency, as part of its effort to expand its operations and increase its enterprise value. In addition, the Company will actively pay dividends on a quarterly basis, including interim and year-end dividends, for flexible shareholder returns.

In 2013, the Company paid a dividend of ¥300.00 for each of the first, second and third quarters, and increased the dividend to ¥360.00 in the fourth quarter (as a result of 2-for-1 splits of shares of the Company's common stock on May 1, 2013 and December 1, 2013, dividends were ¥150.00 per share for the second and third quarters and ¥90.00 per share for the fourth quarter). In 2014, in order to make stable dividend payments to shareholders under the same policy as for 2013, the Company plans to pay quarterly dividends of ¥90.00 (the Company plans to conduct a 100-for-1 split of the shares of its common stock on April 1, 2014; the dividend is presented according to the standard before the stock split).

(4) Business and Other Risks

The paragraphs below describe the items believed to be potential risk factors in the Group's business operations. From the standpoint of proactive information disclosure, this section also includes items considered to be significant in the investment decisions of investors, even though they are not necessarily considered business risks. The Group is aware of the possibility of these risk factors materializing, and makes efforts to prevent their occurrence and to respond in the event that they do occur. However, investment decisions with respect to the Company's stock should be made carefully, taking into account factors other than those described herein.

Forward-looking statements contained in this text are based on the judgment of the Group's management as of February 14, 2014.

(i) Occurrence of Personal Information Leaks, etc.

Due to the nature of its business, the Group handles a large amount of personal information of clients in both its Business Division and its Consumer Division. In regard to the handling of personal information, the Personal Information Protection Act was promulgated and put into effect in May 2003, followed by full enforcement in April 2005. This necessitates even greater attention to handling of personal information. Since Link and Motivation Inc. obtained the Privacy Mark in February 2005 it has responded to audits for Privacy Mark renewal and has established internal company rules for handling personal information, conducted regular in-house training, strengthened information management, and paid due attention to strengthening information management and handling of personal information. However, in the event that unforeseen circumstances cause personal information to be leaked to external parties, and this causes damage to the owner of the personal information, client companies or others, the resulting damage claims and loss of social trust could impact the Group's business results and financial condition.

(ii) Infringement of Intellectual Property Rights

In the business of the Group, securing copyrights, trademarks and other intellectual property rights is critical for conducting business in both the Business Division and the Consumer Division. The Group makes efforts to protect and preserve its proprietary techniques, knowledge and know-how, which are developed internally as much as possible through acquisition of trademarks, specification of copyrights and establishment and maintenance of original brands. However, in the event that the Group's services are imitated by a malicious third party, this could interfere with the

Group’s sales efforts, which could potentially impact business results and financial condition.

(iii) Reliance on a Specific Individual

Yoshihisa Ozasa, the representative director of the Company, is the Company’s founder and has served as representative director since the Company was established. By hiring and training excellent personnel and promoting standardization of services, the Company is building a systematic business management structure that is not dependent upon the skills of a single individual. However, at present, Mr. Ozasa plays an important role in terms of the Group’s overall brand formation. In this aspect as well, the Group is building a stronger organization that can realize systematic brand formation, including newly appointing Hideki Sakashita as President and Representative Director. However, if for any reason it becomes difficult for Mr. Ozasa to continue his work for the Company, this could have an impact on the Company’s business promotion and other aspects of operations.

2. [Omitted from English Translation]

3. Management Policies

(1) Basic Policy on Company Management

The Link and Motivation Group conducts its business with its mission to “contribute to the vitalization of society through motivation engineering,” and operates in Business and Consumer businesses.

The Business Division in particular has asked society about the importance of “motivation” of an organization’s various stakeholders and the effect that has on management, and built its business on organizational transformation through improvement of motivation. A prerequisite for growth is for the Group itself to continue being a model example of a first-rate “motivation company,” and the Group has set this as its basic management policy.

(2) Target Management Indicators

To ensure that management focuses on business profitability and productivity, the operating margin has been positioned as a key management indicator in the Group. In addition, in order to concentrate on increasing the scale of the Group, sales and operating income have also been made important management indicators. In the future, increases in sales and operating income will grow in importance for ongoing investment in further expansion of existing businesses and growth in the scale of the Group through proactive M&A and other means.

(3) Medium- and Long-term Management Strategies

While employing the above management indicators, the following three points will provide medium-term direction for the Group in increasing corporate value and expanding its scale.

A. B2B businesses will strengthen stakeholder management services that help increase corporate value by providing guidance for sound relationships with employees, job applicants, investors and customers, who are corporate stakeholders. We will enhance our lineup of solutions that resolve future challenges in each field and support the creation of even more vibrant companies through personnel system and education support in the Motivation Management business, recruiting support in the Entry Management business, IR and stakeholder relations (SR) support in the Investor Relations business, and sales and marketing support in the Customer Management business.

B. B2C businesses will targets groups such as juniors (junior and senior high school students), adults (college students and adults) and seniors (the elderly) in businesses that improve practical skills, including exam and job hunting support, IT training support and qualification support. We will use the Group’s motivation engineering and the accumulated classroom management know-how of Link Academy Inc. to increase the motivation of individuals to learn and help them achieve their goals, thus concentrating on producing many “i-Companies” (autonomous individuals who are not dependent on a corporation).

C. Finally, in the Sports business and other businesses, where providing attractive venues is directly related to success, we will apply the Group’s motivation engineering to generate new value and contribute to the creation of a more meaningful society. Specifically, we will assess the status of the businesses in A and B above and proceed based on assessment of target businesses and timing.

(4) Issues Facing the Company

As the speed of business expansion and the expectations of various stakeholders further increase, the following three points concern the entire Group. We intend to take proactive steps in dealing with them.

The first point is strengthening cooperation among Group companies. While our businesses diversify, we will strengthen mutual cooperation rather than operating each business separately. In this way, we will multiply rather than simply achieve the sum of their results. This will increase the speed at which we can increase the scale and profitability of the Group.

The second point is promoting an integrated brand. As our businesses diversify, we believe that improving the current situation in which our various businesses have their own unique brands and providing comprehensive services by strengthening cooperation among Group companies under an integrated brand will lead to an increase in profitability. We will create appropriate brands for each segment and work for their uptake by society.

The third point is aggressively expanding and enhancing capabilities, including through M&A. We need to aggressively develop new businesses and add new products and services to our lineup in order to increase the speed of expansion. We will energetically invest in future growth, making bold decisions after taking a hard look at our financial condition.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen, rounded down to the nearest thousand)

	As of December 31, 2012	As of December 31, 2013
ASSETS		
Current assets		
Cash and deposits	2,467,457	555,487
Notes and accounts receivable	2,041,411	2,582,310
Products	57,477	117,579
Goods in process	118,678	295,255
Merchandise and supplies	20,019	17,804
Prepaid expenses	203,513	252,290
Deferred tax assets	93,235	261,166
Short-term loans receivable	331,893	343
Accrued corporate tax refund	35,799	1,031
Other	110,351	141,677
Allowance for doubtful accounts	(25,073)	(29,636)
Total current assets	5,454,765	4,195,311
Fixed assets		
Property and equipment		
Buildings and structures	675,267	661,360
Accumulated depreciation	(395,217)	(398,624)
Buildings and structures (net)	280,050	262,736
Vehicles	10,057	8,812
Accumulated depreciation	(9,959)	(8,728)
Vehicles (net)	98	83
Furniture and fixtures	492,590	547,665
Accumulated depreciation	(411,465)	(462,740)
Furniture and fixtures (net)	81,124	84,924
Lease assets	207,832	283,755
Accumulated depreciation	(70,717)	(111,551)
Lease assets (net)	137,114	172,203
Total property and equipment	498,388	519,948
Intangible assets		
Goodwill	2,948,313	3,821,745
Software	179,813	288,726
Other	4,497	3,282
Total intangible assets	3,132,624	4,113,754
Investments and other assets		
Investments in securities	24,585	213,683
Security deposits	1,057,798	1,229,825
Deferred tax assets	69,787	14,984
Claims in bankruptcy	8,489	8,977
Other	65,446	83,889
Allowance for doubtful accounts	(8,489)	(8,977)
Total investments and other assets	1,217,617	1,542,382
Total fixed assets	4,848,629	6,176,085
Total assets	10,303,395	10,371,397

(Thousands of yen, rounded down to the nearest thousand)

	As of December 31, 2012	As of December 31, 2013
LIABILITIES		
Current liabilities		
Accounts	285,079	335,376
Short-term borrowings	292,636	260,273
Long-term debt due within one year	382,440	327,240
Accounts payable	814,107	1,031,929
Lease obligations	48,723	65,125
Expenses payable	246,012	116,793
Accrued income taxes	238,282	385,584
Accrued consumption taxes	127,969	183,402
Advances received	1,807,892	2,002,319
Accrued bonuses to employees	160,598	226,747
Accrued bonuses to officers	17,043	—
Provision for loss on store closure	2,551	23,299
Other	129,895	124,985
Total current liabilities	4,553,232	5,083,077
Long-term liabilities		
Long-term debt	2,037,720	1,054,980
Lease obligations	96,505	124,428
Reserve for employee retirement benefits	188,536	—
Deferred income taxes	6,824	6,422
Asset retirement obligations	45,057	49,218
Other	127,257	258,414
Total long-term liabilities	2,501,902	1,493,463
Total liabilities	7,055,135	6,576,541
NET ASSETS		
Shareholders' equity		
Common stock	979,750	979,750
Additional paid-in capital	734,595	734,595
Retained earnings	2,265,931	2,807,677
Treasury stock	(731,840)	(731,840)
Total shareholders' equity	3,248,436	3,790,182
Cumulative other comprehensive income		
Unrealized gain (loss) on securities	(176)	4,672
Total cumulative other comprehensive income	(176)	4,672
Total net assets	3,248,260	3,794,855
Total liabilities and net assets	10,303,395	10,371,397

(2) Consolidated Statements of Operations and Comprehensive Income

Consolidated Statements of Operations

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2012	Year ended December 31, 2013
Net sales	18,705,980	22,383,970
Cost of sales	11,398,879	13,641,799
Gross profit	7,307,100	8,742,170
Selling, general and administrative expenses	6,157,996	7,184,070
Operating income	1,149,104	1,558,100
Non-operating income		
Interest income	1,309	2,241
Dividend income	552	522
Consulting fees	6,000	—
Commissions received	4,567	13,543
Other	16,197	10,380
Total non-operating income	28,626	26,688
Non-operating expenses		
Interest expenses	40,785	39,770
Expenses for purchase of treasury stock	2,250	—
Commission fees	—	22,269
Other	790	12,375
Total non-operating expenses	43,827	74,415
Ordinary income	1,133,903	1,510,373
Extraordinary income		
Gain on valuation of investment securities	—	9,325
Gain on termination of retirement plan	—	27,680
Gain on sale of shares of subsidiary	6,406	—
Other	1,187	736
Total extraordinary income	7,594	37,742
Extraordinary loss		
Loss on valuation of investment securities	1,999	—
Loss on disposal of property and equipment	3,214	78,552
Business structure improvement expenses	—	25,483
Loss on impairment	15,136	120,886
Provision for loss on store closure	3,276	16,873
Other	745	31,107
Total extraordinary loss	24,372	272,902
Income before income taxes	1,117,125	1,275,212
Current income taxes	391,223	555,476
Deferred income taxes	17,428	(112,649)
Total income taxes	408,652	442,826
Income before minority interests	708,472	832,385
Net income	708,472	832,385

Consolidated Statements of Comprehensive Income

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2012	Year ended December 31, 2013
Income before minority interests	708,472	832,385
Other comprehensive income		
Unrealized gain (loss) on securities	(496)	4,848
Total other comprehensive income (loss)	(496)	4,848
Comprehensive income	707,976	837,234
(Attributable to)		
Owners of the parent	707,976	837,234
Minority interests	—	—

(3) Consolidated Statements of Changes in Net Assets

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2012	Year ended December 31, 2013
Shareholders' equity		
Common stock		
Balance at December 31, 2012	979,750	979,750
Balance at December 31, 2013	979,750	979,750
Additional paid-in capital		
Balance at December 31, 2012	734,595	734,595
Balance at December 31, 2013	734,595	734,595
Retained earnings		
Balance at December 31, 2012	1,827,321	2,265,931
Changes during the year		
Dividends from capital surplus	(269,863)	(290,640)
Net income	708,472	832,385
Total changes during the year	438,609	541,745
Balance at December 31, 2013	2,265,931	2,807,677
Treasury stock		
Balance at December 31, 2012	(485,006)	(731,840)
Changes during the year		
Payments for purchase of treasury stock	(246,833)	—
Total changes during the year	(246,833)	—
Balance at December 31, 2013	(731,840)	(731,840)
Total shareholders' equity		
Balance at December 31, 2012	3,056,660	3,248,436
Changes during the year		
Dividends from capital surplus	(269,863)	(290,640)
Net income	708,472	832,385
Payments for purchase of treasury stock	(246,833)	—
Total changes during the year	191,776	541,745
Balance at December 31, 2013	3,248,436	3,790,182

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2012	Year ended December 31, 2013
Cumulative other comprehensive income		
Unrealized gain (loss) on securities		
Balance at December 31, 2012	320	(176)
Changes during the year		
Changes in items other than shareholders' equity (net)	(496)	4,848
Total changes during the year	(496)	4,848
Balance at December 31, 2013	(176)	4,672
Total cumulative other comprehensive income		
Balance at December 31, 2012	320	(176)
Changes during the year		
Changes in items other than shareholders' equity (net)	(496)	4,848
Total changes during the year	(496)	4,848
Balance at December 31, 2013	(176)	4,672
Minority interests		
Balance at December 31, 2012	115,471	—
Changes during the year		
Changes in items other than shareholders' equity (net)	(115,471)	—
Total changes during the year	(115,471)	—
Balance at December 31, 2013	—	—
Total net assets		
Balance at December 31, 2012	3,172,452	3,248,260
Changes during the year		
Dividends from capital surplus	(269,863)	(290,640)
Net income	708,472	832,385
Payments for purchase of treasury stock	(246,833)	—
Changes in items other than shareholders' equity (net)	(115,967)	4,848
Total changes during the year	75,808	546,594
Balance at December 31, 2013	3,248,260	3,794,855

(4) Consolidated Statements of Cash Flow

(Thousands of yen, rounded down to the nearest thousand)

	Year ended December 31, 2012	Year ended December 31, 2013
Cash flow from operating activities		
Income before income taxes	1,117,125	1,275,212
Depreciation and amortization	262,674	309,438
Loss on impairment	15,136	120,886
Amortization of goodwill	358,704	511,411
Increase (decrease) in allowance for doubtful accounts	(18,621)	(2,180)
Increase (decrease) in allowance for employees’ bonuses	(27,604)	66,149
Increase (decrease) in allowance for officers’ bonuses	(6,457)	(17,043)
Loss (gain) on valuation of investment securities	1,999	(9,325)
Gain (loss) on reserve for employee retirement benefits	28,181	(188,536)
Gain (loss) on provision for loss on store closure	(3,234)	(129,292)
Loss (gain) on sale of subsidiary stock	(6,406)	—
Loss on disposal of fixed assets	3,214	78,552
Interest and dividend income	(1,862)	(2,763)
Interest expense	40,785	39,770
Decrease (increase) in notes and accounts receivable — trade	(3,280)	(436,778)
Decrease (increase) in inventories	(55,604)	(197,522)
Increase (decrease) in notes and accounts payable	34,430	9,642
Increase (decrease) in accounts payable	(42,194)	(49,670)
Increase (decrease) in advances received	(45,455)	(413,794)
Increase (decrease) in accrued consumption taxes	7,339	54,163
Other	46,624	(136,208)
Subtotal	1,705,495	882,107
Interest and dividends received	1,475	2,840
Interest paid	(41,576)	(38,803)
Income taxes paid	(527,621)	(438,116)
Income tax refund	—	53,917
Net cash provided by operating activities	1,137,772	461,945
Cash flow from investing activities		
Payments for time deposits	(30,000)	—
Proceeds from recovery of investments	—	(8,000)
Payments for acquisition of property and equipment	(103,736)	(153,699)
Gain on sale of property and equipment	—	1,796
Payments for acquisition of intangible fixed assets	(59,143)	(196,505)
Payments for acquisition of investment securities	—	(188,900)
Proceeds from sale of investment securities	—	13,193
Proceeds from sale of subsidiary stock due to a change in the scope of consolidation	24,599	—
Payments for business transfer	(45,000)	—
Payments for acquisition of subsidiary stock due to a change in the scope of consolidation	(1,409,223)	—
Proceeds from acquisition of subsidiary stock due to a change in the scope of consolidation	—	82,055
Payments for acquisition of subsidiary stock	(117,000)	—
Proceeds from redemption of securities	10,000	—
Payments for loans	(330,000)	—
Proceeds from recovery of short-term loans	1,500	1,550
Payments for security deposits and guarantees	(56,212)	(149,103)
Proceeds from recovery of security deposits and guarantees	26,935	199,457
Other	(8,058)	(5,556)
Net cash provided by (used in) investing activities	(2,095,339)	(403,712)
Cash flow from financing activities		
Repayment of short-term debt	(76,950)	(208,010)
Proceeds from long-term debt	1,500,000	200,000
Repayment of long-term debt	(376,821)	(1,588,170)
Repayment of lease obligations	(32,658)	(82,565)
Payments for purchase of treasury stock	(249,084)	—
Payment of cash dividends	(270,616)	(291,456)
Net cash provided by (used in) financing activities	493,869	(1,970,202)
Net increase (decrease) in cash and cash equivalents	(463,697)	(1,911,969)
Cash and cash equivalents at beginning of year	2,901,154	2,437,457
Cash and cash equivalents at end of year	2,437,457	525,487

5. Notes Regarding Assumption of Going Concern

None applicable

6. Segment Information

Segment Information

1. Overview of reportable segments

The reportable segments of the Group are constituent units for which separate financial information is available and for which the Board of Directors undertakes a regular review to determine the allocation of management resources and assess business performance.

The Group operates based on comprehensive strategies for the services it offers.

The Group consists of business segments based on the format in which the services are offered and has consequently set two segments—the Business Division and the Consumer Division—as its reportable segments.

In the Business Division, the Group applies "motivation engineering," the essential technology for corporate innovation, to communicate with corporate stakeholders such as employees, applicants, shareholders, and investors and supports the management and growth of companies with one-stop services. In the Consumer Division, the Group offers services by applying the same essential motivation engineering technology to Consumer business domains such as schools, preparatory schools, sports and restaurants.

2. Methods of calculating sales, income or loss, assets, liabilities and other items by reportable segment

The accounting method for reportable business segments generally conforms to the basic standards for preparation of consolidated financial statements. Segment income is based on gross profit in the Consolidated Statements of Operations.

3. Sales, income or loss, assets, liabilities and other items

Fiscal 2012 (January 1, 2012 – December 31, 2012)

(Thousands of yen, rounded down to the nearest thousand)

	Reportable Segment			Adjustment (Note 1)	Consolidated
	Business Division	Consumer Division	Total		
Segment sales					
Sales to outside customers	12,057,972	6,648,007	18,705,980	—	18,705,980
Intersegment sales and transfers	259,859	204,454	464,313	(464,313)	—
Total	12,317,832	6,852,461	19,170,294	(464,313)	18,705,980
Segment income (Note 2)	5,033,676	2,428,159	57,461,835	(154,736)	7,307,100
Segment assets	7,628,915	3,198,267	10,827,183	(523,788)	10,303,395
Segment liabilities	4,940,236	2,888,245	7,828,481	(773,347)	7,055,135
Other items					
Depreciation and amortization	62,287	0	62,287	0	62,287

Notes: 1. Adjustments represent elimination of intersegment transactions.
2. Segment income is gross profit.

Fiscal 2013 (January 1, 2013 – December 31, 2013)

(Thousands of yen, rounded down to the nearest thousand)

	Reportable Segment			Adjustment (Note 1)	Consolidated
	Business Division	Consumer Division	Total		
Segment sales Sales to outside customers	13,535,941	8,848,029	22,383,970	—	22,383,970
Intersegment sales and transfers	601,272	329,250	930,522	(930,522)	—
Total	14,137,214	9,177,279	23,314,493	(930,522)	22,383,970
Segment income (Note 2)	5,689,996	3,265,847	8,955,843	(213,672)	8,742,170
Segment assets	6,963,088	4,452,565	11,415,653	(1,044,256)	10,371,397
Segment liabilities	4,108,327	3,375,171	7,483,499	(906,958)	6,576,541
Other items Depreciation and amortization	115,600	193,837	309,438	—	309,438

Notes: 1. Adjustments represent elimination of intersegment transactions.
2. Segment income is gross profit.