

# Consolidated Financial Statements for the First Quarter of 2010

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

May 12, 2010

Link and Motivation Inc.  
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<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  
Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled):  
Start of distribution of dividends (scheduled):

Phone: +81-3-3538-8558  
May 12, 2010  
June 25, 2010

(Amounts are rounded down to the nearest million.)

## 1. Consolidated Results for First Quarter of 2010 (January 1, 2010 - March 31, 2010)

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

	Net sales (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Ordinary income (¥ million)	Change (%)
Three months ended March 31, 2010	1,643	(4.8)	73	—	73	—
Three months ended March 31, 2009	1,726	—	(285)	—	(284)	—

	Net income (¥ million)	Change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Three months ended March 31, 2010	9	—	67.51	—
Three months ended March 31, 2009	(201)	—	(1,489.96)	—

## (2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
As of March 31, 2010	4,152	2,834	68.3	21,003.03
As of December 31, 2009	4,637	2,892	62.4	21,428.63

(Reference) Net worth: ¥2,834 million (2009: ¥2,892 million)

## 2. Dividends

	Dividends per share				
	1st Qtr.	Interim	3rd Qtr.	Year-end	Full year
2009	500.00	500.00	500.00	500.00	2,000.00
2010	500.00				
2010 (est.)		500.00	500.00	500.00	2,000.00

Note: Revision of dividend forecast during the quarter: No

## 3. Forecast of Results for 2010 (January 1, 2010 - December 31, 2010)

(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	5,500	(23.2)	520	528.7	520	456.1	450	—	3,334.32

Note: Revision of forecast of results during the quarter: No

#### **4. Other**

- (1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries due to Changes in the Scope of Consolidation): No
- (2) Application of Simplified Accounting Procedures and Accounting Procedures Specific to the Preparation of Quarterly Consolidated Financial Statements: Yes  
(For details, see "4. Other" in "Qualitative Information and Financial Statements, etc." on page 6.)
- (3) Changes in Accounting Rules, Procedures, Presentation Method, etc. for the Quarterly Consolidated Financial Statements
  - (a) Changes in consolidated accounting methods: No
  - (b) Changes other than (a) above: No  
(For details, see "4. Other" in "Qualitative Information and Financial Statements, etc." on page 6.)
- (4) Number of Shares Issued and Outstanding (Common Stock)
  - (a) Number of shares at the end of the period (including treasury stock)  
Three months ended March 31, 2010: 134,960; Year ended December 31, 2009: 134,960
  - (b) Number of treasury shares at the end of the period:  
Three months ended March 31, 2010: 0; Year ended December 31, 2009: 0
  - (c) Average number of shares outstanding (cumulative with earlier quarters):  
Three months ended March 31, 2010: 134,960; Three months ended March 31, 2009: 134,960

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

The forecast of consolidated results contained in this document is based on the most reliable information and assumptions available to the Company as of the date of submission. Please bear in mind that numerous uncertain factors in an increasingly unclear economic environment could cause actual results to differ materially from the forecast. See "3. Qualitative Data on the Forecast of Consolidated Results" in "Qualitative Information and Financial Statements, etc." on page 5 for an explanation of the forecast of results.

## **Qualitative Information and Financial Statements, etc.**

### **1. Qualitative Information Regarding Results of Consolidated Operations**

During the first quarter of 2010 (January 1, 2010 to March 31, 2010), Japan's economy showed indications of emerging from the recession that has continued since fiscal 2008. Various economic indicators show that the precipitous drop in the economy has stopped and signs of a recovery are beginning to appear. However, employment conditions are still poor, as shown by indicators such the ratio of job offers to university and other graduates, which lingers at 0.47, and there remains no recovery in corporate personal investment.

In this severe environment, Link and Motivation Inc. ("the Company") was committed to strengthening services based on management issues and shifting to a highly flexible operating structure in order to realize a framework for stable profits. To strengthen services based on management issues, the Company will target specific clients and focus not only on personnel departments, but also other departments such as management planning and sales, and the increase in sales opportunities should lead to a rise in projects that touch on management issues. To shift to a highly flexible operating structure, the Company concentrated on thorough in-house production, which allowed it to cut outsourcing costs by about 30%, while the effects of moving out of the Shiodome and Da Vinci Ginza offices began to surface gradually and the Company's office-related costs are now only about 50% of their peak.

As a result, consolidated net sales of the Link and Motivation Group for the first quarter of 2010 were ¥1,643,549 thousand (a 4.8% decrease compared with the same period of the previous year), gross profit was ¥832,572 thousand (a 17.4% increase), operating income was ¥73,590 thousand, ordinary income was ¥73,623 thousand and net income was ¥9,112 thousand, so that even while sales fell below the first quarter of the previous fiscal year, income at all levels greatly exceeded results in the same period of the previous year.

An overview by business area for the first quarter of 2010 is as follows.

#### **Motivation Management Business**

In the Motivation Management business, sales in the first quarter were ¥475,600 thousand (a 14.8% decrease compared with the same period of the previous year), while gross profit was ¥237,674 thousand (a 20.7% decrease).

This segment offers services for personnel training and organization and system design aimed at creating highly motivated organizations. The segment also supports corporate vision and brand creation and market penetration.

In the first quarter, while projects related to services directly connected to resolving management issues gradually increased, customers continued to cut back budgets for personnel, training, advertising and PR, driving net sales down. Going forward, we will continue thorough sales activities at multiple departments within target companies and commit to creating projects that will touch on the essential business issues facing those companies.

#### **Entry Management Business**

In the Entry Management business, net sales in the first quarter were ¥729,268 thousand (a 9.6% decrease compared with the same period of the previous year), and gross profit was ¥453,870 thousand (a 45.9% increase).

This segment offers services aimed at realizing the best matches between companies and applicants in the recruitment scene, and assistance and support for proposing and executing recruitment strategies.

In the first quarter, amid a background of customers operating in a severe economic environment, the trend toward strict selection of students for recruitment grew stronger. Sales decreased compared to the first quarter of the previous year as a result of reduced work related to major company information sessions and support services such as arranging sites for event operations. However, gross profit increased significantly due to progress in sales of recruitment tests and recruitment strategy consulting, an upstream service with high profit margins, and success in thoroughly reducing outsourcing costs. Going forward, dissolution of the Company's business alliance with Recruit Co., Ltd., will allow us to commit to strengthening direct sales with existing customers to enhance our relationships and increase transactions with customers.

#### **Investor Relations Business**

In the Investor Relations business, sales were ¥110,549 thousand (a decrease of 17.5% compared to the same quarter of the previous year) and gross profit was ¥40,778 thousand (a 137.1% increase).

This segment provides services designed to achieve effective and efficient communication with

investors, including annual report production and video service for corporate results presentations.

In the first quarter, net sales fell compared with the corresponding quarter of the previous year in conjunction with the transfer of the business of *Kabushiki Nippon*, a specialist magazine for investors. However, with solid sales of the video distribution service continuing from the previous year and the cost-cutting effects of moving production in-house, gross profit rose significantly compared with the first quarter of 2009.

### **Place Management Business**

In the Place Management business, first-quarter sales were ¥171,795 thousand (a 22.3% decrease compared with the same period of the previous year), and gross profit was ¥54,601 thousand (a decrease of 28.1%).

This segment provides office brokerage and consultation services related to office design and construction.

In the first quarter, sales declined in the main businesses of office brokerage and consultation services as customers refrained from active office investment and net sales and gross profit decreased compared with the same period of the previous year.

### **Other**

Other sales totaled ¥156,336 thousand (a 2,347.9% increase compared with the same period of the previous year).

In addition to proceeds from speeches at various business events, book publishing and articles written for newspapers and business magazines, results included sales of Link Sports Entertainment Inc., in which the Company acquired shares in May 2009.

Note: Comparisons with the previous fiscal year for the Motivation Management and Investor Relations businesses, in which business areas have changed, are based on retroactively revised figures.

## 2. Qualitative Data on Consolidated Financial Position

### Assets, Liabilities and Net Assets

Total assets at the end of the first quarter were ¥4,152,469 thousand, down ¥484,938 thousand from the end of the previous fiscal year. The decrease was largely due to factors such as a ¥96,445 thousand decline in cash and deposits, a ¥302,436 thousand decrease in notes and accounts receivable and a ¥45,700 thousand decrease in deferred tax assets.

Total liabilities at the end of the first quarter were ¥1,317,899 thousand, down ¥427,500 thousand from the previous fiscal year-end. The decrease is mainly attributable to a decline in short-term borrowings of ¥200,000 thousand, a ¥96,962 thousand decrease in advances received and decline of ¥65,804 thousand in accounts payable.

Total net assets at the end of the first quarter were ¥2,834,569 thousand, down ¥57,438 thousand from the previous fiscal year-end. Principal factors in the change included a decrease of ¥67,480 thousand in retained earnings due to payment of dividends and an increase of ¥9,112 thousand in retained earnings from net income.

### Cash Flow

Cash and cash equivalents (hereafter, "Cash") decreased ¥96,445 thousand from the end of the previous fiscal year to ¥1,046,086 thousand at the end of the first quarter (an increase of 11.0% from the same period of the previous year).

The status and primary contributing factors for each category of cash flow at the end of the first quarter under review were as follows:

#### *Cash Flow from Operating Activities*

Net cash provided by operating activities was ¥188,609 thousand, a 4,917.3% increase compared with the same quarter of the previous year.

The principal factors were a ¥302,436 thousand decrease in notes and accounts receivable—trade and ¥53,602 thousand in income before income taxes, offset by a net decrease of ¥142,944 thousand in accounts payable and advances received.

#### *Cash Flow from Investing Activities*

Net cash used in investing activities was ¥15,818 thousand, a decrease of 96.4% compared with the same quarter in the previous year.

The principal factors were ¥13,552 thousand in proceeds from recovery of security deposits offset by ¥22,912 thousand in net payments for acquisition of fixed assets.

#### *Cash Flow from Financing Activities*

Net cash used in financing activities was ¥269,236 thousand.

Principal factors included ¥200,000 thousand in repayment of short-term debt and ¥68,723 thousand for payment of cash dividends.

## 3. Qualitative Data on the Forecast of Consolidated Results

There are currently no revisions to the forecast for the fiscal year ending December 31, 2010.

#### 4. Other

##### (1) Application of Simplified Accounting Procedures and Accounting Procedures Specific to the Preparation of Quarterly Consolidated Financial Statements

Current First Quarter (From January 1, 2010, to March 31, 2010)
(Simplified accounting procedures)
1. Appraisal method for inventory assets With respect to the calculation of inventory assets as of March 31, 2009, physical stocktaking was not conducted, and instead a method of reasonably calculating inventory based on physical inventory figures at the end of the previous consolidated fiscal year was adopted. In addition, with respect to the write-down of book values, actual sales value is estimated for those inventory assets with clearly diminished profitability.
2. Calculation method for the depreciation cost of fixed assets With respect to the assets calculated using the declining-balance method, the portion of depreciation cost for the consolidated fiscal year under review is included.

Current First Quarter (From January 1, 2010, to March 31, 2010)
(Accounting procedures specific to the preparation of quarterly consolidated financial statements)
1. Calculation of tax expenses With respect to tax expenses, a reasonable estimate is made for the effective tax rate after the application of tax effect accounting to pretax net income for the consolidated fiscal year, and the estimated tax rate is multiplied by pretax net income. The adjustment for corporate and other taxes is included in income taxes in the Statements of Operations.

##### (2) Changes in Accounting Rules and Procedures, Presentation Methods, etc. for the Quarterly Consolidated Financial Statements

None applicable.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

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

	As of March 31, 2010	As of December 31, 2009
<b>ASSETS</b>		
Current assets		
Cash and deposits	1,096,086	1,192,532
Notes and accounts receivable	788,506	1,090,943
Products	3,877	4,226
Goods in process	40,749	32,574
Merchandise and supplies	10,168	11,706
Prepaid expenses	71,861	62,939
Deferred tax assets	30,638	76,339
Accrued corporate tax refund	290,648	281,995
Accrued consumption tax	42,455	54,532
Other	18,301	20,344
Allowance for doubtful accounts	(15,924)	(15,499)
Total current assets	2,377,368	2,812,634
Fixed assets		
Property and equipment		
Buildings and structures	135,278	131,280
Accumulated depreciation	(84,652)	(82,522)
Buildings and structures (net)	50,626	48,758
Vehicles	5,840	5,840
Accumulated depreciation	(4,539)	(4,209)
Vehicles (net)	1,300	1,631
Furniture and fixtures	298,447	296,406
Accumulated depreciation	(222,664)	(217,076)
Furniture and fixtures (net)	75,782	79,330
Lease assets	21,138	21,138
Accumulated depreciation	(5,055)	(3,499)
Lease assets (net)	16,083	17,639
Total property and equipment	143,792	147,359
Intangible assets		
Goodwill	604,821	625,532
Software	217,948	230,752
Other	5,073	5,289
Total intangible assets	827,843	861,575
Investments and other assets		
Investments in securities	9,563	9,196
Security deposits	482,487	492,040
Deferred tax assets	266,876	267,717
Claims in bankruptcy	10,480	11,352
Other	44,536	46,885
Allowance for doubtful accounts	(10,480)	(11,352)
Total investments and other assets	803,463	815,839
Total fixed assets	1,775,100	1,824,773
Total assets	4,152,469	4,637,408

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

	As of March 31, 2010	As of December 31, 2009
<b>LIABILITIES</b>		
Current liabilities		
Accounts	236,476	219,615
Short-term borrowings	650,000	850,000
Long-term debt due within one year	2,052	2,052
Accounts payable	172,555	238,359
Lease obligations	6,123	6,075
Expenses payable	4,811	20,647
Accrued income taxes	—	569
Accrued consumption taxes	9,568	28,679
Advances received	24,786	121,749
Accrued bonuses to employees	93,965	105,826
Accrued bonuses to officers	—	5,846
Other reserves	56,400	62,250
Other	47,595	68,104
Total current liabilities	1,304,336	1,729,776
Long-term liabilities		
Long-term debt	3,420	3,933
Lease obligations	10,143	11,690
Total long-term liabilities	13,563	15,623
Total liabilities	1,317,899	1,745,400
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock	979,750	979,750
Additional paid-in capital	734,595	734,595
Retained earnings	1,119,912	1,178,280
Total shareholders' equity	2,834,257	2,892,625
Valuation and translation adjustments		
Unrealized gain on securities	311	(617)
Total valuation and translation adjustments	311	(617)
Total net assets	2,834,569	2,892,008
Total liabilities and net assets	4,152,469	4,637,408

**(2) Consolidated Statements of Operations**

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

	Three months ended March 31, 2009	Three months ended March 31, 2010
Net sales	1,726,628	1,643,549
Cost of sales	1,017,193	810,977
Gross profit	709,435	832,572
Selling, general and administrative expenses	994,704	758,982
Operating income (loss)	(285,269)	73,590
Non-operating income		
Interest income	676	133
Dividend income	49	22
Reversal of allowance for doubtful accounts	—	95
Other	1,220	1,101
Total non-operating income	1,946	1,352
Non-operating expenses		
Interest expenses	1,001	1,158
Other	149	161
Total non-operating expenses	1,151	1,319
Ordinary income (loss)	(284,473)	73,623
Extraordinary loss		
Loss on sale of property and equipment	—	2,231
Loss on valuation of investment securities	1,215	1,195
Loss on disposal of property and equipment	4,092	—
Business transfer expenses	7,063	6,901
Adjusted loss from the previous period	—	9,692
Other	2,922	—
Total extraordinary loss	15,293	20,020
Income (loss) before income taxes	(299,766)	53,602
Income taxes	(98,682)	44,490
Net income (loss)	(201,085)	9,112

### (3) Consolidated Statements of Cash Flow

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

	Three months ended March 31, 2009	Three months ended March 31, 2010
<b>I Cash flow from operating activities</b>		
Income (loss) before income taxes	(299,766)	53,602
Depreciation and amortization	41,967	33,686
Amortization of goodwill	52,250	20,710
Increase (decrease) in allowance for doubtful accounts	(1,650)	(446)
Increase (decrease) in allowance for employees' bonuses	(47,670)	(11,860)
Increase (decrease) in allowance for officers' bonuses	(611)	(5,846)
Increase (decrease) in reserve for loss on returned goods	(113)	(1,158)
Loss (gain) on valuation of investment securities	1,215	1,195
Loss (gain) on sale of fixed assets	—	2,231
Loss on disposal of fixed assets	4,092	—
Interest and dividend income	(726)	(155)
Interest expense	1,001	1,158
Decrease (increase) in notes and accounts receivable - trade	570,967	302,436
Decrease (increase) in inventories	110,752	(6,288)
Increase (decrease) in notes and accounts payable	(22,771)	16,861
Increase (decrease) in accounts payable	(12,727)	(62,843)
Increase (decrease) in advances received	(42,668)	(96,962)
Increase (decrease) in accrued consumption taxes	(46,919)	(7,034)
Other	40,472	(48,090)
Subtotal	347,094	191,196
Interest and dividends received	411	155
Interest paid	(958)	(1,075)
Corporate tax refund	—	1,481
Income taxes paid	(302,787)	(3,149)
Officers' retirement benefits	(40,000)	—
<b>Net cash provided by operating activities</b>	<b>3,759</b>	<b>188,609</b>
<b>II Cash flow from investing activities</b>		
Payments for acquisition of property and equipment	(11,187)	(13,331)
Payments for acquisition of intangible fixed assets	(16,327)	(9,580)
Payments for acquisition of stock of subsidiary for consolidation	(628,249)	—
Payments for acquisition of stock of subsidiary	(7,920)	—
Proceeds from recovery of short-term borrowing	200,000	—
Proceeds from recovery of long-term borrowing	30,000	—
Payments for security deposits	(600)	(4,000)
Proceeds from recovery of security deposits	—	13,552
Other	(2,287)	(2,458)
<b>Net cash used in investing activities</b>	<b>(436,571)</b>	<b>(15,818)</b>
<b>III Cash flow from financing activities</b>		
Increase (decrease) in short-term debt	488,000	(200,000)
Repayment of long-term debt	(223,840)	(513)
Repayment of bonds	(33,200)	—
Payment of cash dividends	(168,503)	(68,723)
<b>Net cash provided by (used in) financing activities</b>	<b>62,456</b>	<b>(269,236)</b>
<b>IV Net increase (decrease) in cash and cash equivalents</b>	<b>(370,356)</b>	<b>(96,445)</b>
<b>V Cash and cash equivalents at beginning of period</b>	<b>1,312,494</b>	<b>1,142,532</b>
<b>VI Cash and cash equivalents at end of period</b>	<b>942,137</b>	<b>1,046,086</b>

**(4) Notes Regarding Assumption of Going Concern**

First-quarter period (January 1, 2010 – March 31, 2010)

None applicable

**(5) Segment Information**

a. Business Segment Information

First-quarter period (January 1, 2010 – March 31, 2010)

Not applicable because the business of the Company and its subsidiaries, “Management consulting through motivation engineering,” is a single segment.

b. Geographic Segment Information

First-quarter period (January 1, 2010 – March 31, 2010)

Geographic segment information is not disclosed because the Company has no consolidated subsidiaries or significant branch offices outside Japan.

c. Overseas Sales

First-quarter period (January 1, 2010 – March 31, 2010)

Overseas sales information is omitted because the Company has no overseas sales.

**(6) Notes in the Event of Significant Changes in Shareholders' Equity**

First-quarter period (January 1, 2010 – March 31, 2010)

None applicable

**6. Other Information**

None applicable