

Consolidated Financial Statements for the First Quarter of 2009

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

May 15, 2009

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):

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May 15, 2009
June 25, 2009

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for First Quarter of 2009 (January 1, 2009 - March 31, 2009)

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

	Net sales (¥ million)	Change (%)	Operating income (loss) (¥ million)	Change (%)	Ordinary income (loss) (¥ million)	Change (%)
Three months ended March 31, 2009	1,726	—	(285)	—	(284)	—
Three months ended March 31, 2008	2,137	5.8	245	3.7	246	4.8

	Net income (loss) (¥ million)	Change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Three months ended March 31, 2009	(201)	—	(1,489.96)	—
Three months ended March 31, 2008	142	12.5	1,048.49	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net assets/ Total assets (%)	Net assets per share (¥)
As of March 31, 2009	4,633	3,397	73.3	25,170.71
As of December 31, 2008	4,963	3,787	76.3	28,066.52

(Reference) Net worth As of March 31, 2009: ¥3,397 million As of December 31, 2008: ¥3,787 million

2. Dividends

	Dividends per share				
	1st Qtr.	Interim	3rd Qtr.	Year-end	Full year
2008	525.00	787.00	309.00	1,409.00	3,030.00
2009	500.00				
2009 (est.)		500.00	500.00	500.00	2000.00

3. Forecast of Consolidated Results for 2009 (January 1, 2009 - December 31, 2009)

(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)	(%)	(¥)
Interim period	4,130	—	430	—	425	—	230
Full-year	8,400	1.5	1,480	4.7	1,470	3.1	820

Note: Changes to the forecast of results during the first quarter: No

4. Other

- (1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries due to Changes in the Scope of Consolidation): Yes
New: 1 company (Name: E News, Inc.) Eliminations: -
(For details, see “4. Other” of “Qualitative Information and Financial Statements, etc.” on page 5.)
- (2) Application of Simplified Accounting Procedures and Accounting Procedures Specific to the Preparation of Quarterly Consolidated Financial Statements
(For details, see “4. Other” of “Qualitative Information and Financial Statements, etc.” on page 5.)
- (3) Changes in Accounting Policies and Procedures and Presentation Methods for Preparation of the Quarterly Consolidated Financial Statements
(a) Changes in consolidated accounting methods: Yes
(b) Changes other than (a) above: No
(For details, see “4. Other” of “Qualitative Information and Financial Statements, etc.” on page 5.)
- (4) Number of Shares Issued (Common Stock)
(a) Number of shares at the end of the period (including treasury stock)
Three months ended March 31, 2009: 134,960; Year ended December 31, 2008: 134,960
(b) Number of treasury shares at the end of the period:
Three months ended March 31, 2009: 0; Year ended December 31, 2008: 0
(c) Average number of shares outstanding (cumulative with earlier quarters):
Three months ended March 31, 2009: 134,960; Year ended December 31, 2008: 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. Please see “3. Qualitative Data on the Forecast of Consolidated Results” of “Qualitative Information and Financial Statements, etc.” on page 5.

From the fiscal year ending March 31, 2010, the Company applies the Accounting Standard for Quarterly Financial Statements (ASB Standard No. 12) and the Guidance on Accounting Standard for Quarterly Financial Statements (ASB Guidance No. 14). In addition, quarterly consolidated financial statements are produced in compliance with the rules for quarterly consolidated financial statements.

- Qualitative Information and Financial Statements, etc.

1. Qualitative Information Regarding Results of Consolidated Operations

During the first quarter of 2009, the Japanese economy faced a recession considered by many to be the kind that occurs once in a century. As a consequence, many companies performed well short of their forecasts. This prompted many corporate clients to make deep cuts in their spending.

In this extremely severe environment, Link and Motivation Inc. focused on executing its growth strategies of reorganizing Group companies to improve synergies within its businesses, and stepping up the development of new products to respond effectively to diverse customer needs. The Company incurred expenses associated with the reorganization of Group companies, principally for office relocations. We believe that further time will be required before improved synergies within the Group begin to have a positive impact on sales. To strengthen new product development, we released several new products and began marketing them in the first quarter. However, this strategy, too, is likely to produce tangible results only from the second quarter onward.

As a result, consolidated net sales of the Link and Motivation Group for the first quarter of 2009 were ¥1,726,628 thousand (a 19.2% decrease compared with the same period of the previous year), gross profit was ¥709,435 thousand (a 40.2% decrease), operating loss was ¥285,269 thousand, ordinary loss was ¥284,473 thousand, and net loss was ¥201,085 thousand.

Motivation Management Business: Organizational strategies

In the Motivation Management business, sales in the first quarter were ¥470,504 thousand (a 35.8% decrease compared with the same period of the previous year), while gross profit was ¥273,705 thousand (a 49.9% decrease).

This segment offers services for organizational strategic planning (education and training, personnel system, and organizational climate) designed to improve employee motivation and provides support for the strategy implementation.

In the first quarter, revenue from consulting on organizational climate and personnel systems declined as the recession forced a contraction in human resources and training-related budgets at small and medium-sized enterprises. In education and training, despite solid sales of the skills training series, sales of the stance training series were down from the same period a year earlier because level-specific training and training for new recruits at large companies, originally scheduled for February and March 2009, were postponed to April and beyond as corporate clients reviewed their budgets. Moreover, a special factor arose in the database diagnosis business with the postponement of a major employee motivation diagnosis project to at least April from the originally scheduled delivery in March.

As a result, first-quarter sales and gross profit both declined significantly from the same period of the previous year.

Entry Management Business: Employment strategies

In the Entry Management business, sales in the first quarter were ¥806,758 thousand (a 13.7% decrease compared with the same period of the previous year), and gross profit was ¥311,148 thousand (a 34.3% decrease).

This segment offers recruiting strategy planning services aimed at realizing the best matches between companies and applicants in the recruitment stage, and assistance with the execution of strategies.

In the first quarter, many corporate clients cut back their recruiting budgets as they struggled with the recession. Nevertheless, large companies continue to recruit a certain number of new graduates, learning from the problems they encountered when new graduate recruitment was halted with the collapse of the bubble economy. This ensured stable sales of recruitment tests, a service used repeatedly by customers, and recruitment strategy consulting, a high value-added service. However, sales of outsourcing services for recruitment administration, event operation, and venue booking declined as corporate customers increasingly handled these tasks in-house.

As a result, first-quarter sales and gross profit both declined from the same period of the previous year.

Brand Management Business: Brand strategies/IR strategies

In the Brand Management business, sales in the first quarter were ¥221,886 thousand (a 3.4% decrease compared with the same period of the previous year), and gross profit was ¥43,377 thousand (a 66.3% decrease).

This segment offers marketing strategy planning services aimed at boosting the brand image of corporate customers in the branding support business, and support for the execution of strategies. In addition, the investor relations support business provides IR strategy planning services aimed at earning appropriate valuations from investors, and support for the execution of strategies.

In the branding support business, sales were down from a year earlier due to shrinking advertising budgets, mostly at major corporations. In addition, profit margins tightened because the full cost of lifestyle motivation research, conducted once every year by dropping off questionnaires for return, was recorded in the first quarter, instead of over the fiscal year. In the IR support business, sales remained stable, with a high repeat customer ratio for the video service for corporate results presentations. In contrast, the profitability of *Kabushiki Nippon*, a magazine dedicated to stock investment issues, declined significantly due to a drop in circulation.

As a result, first-quarter segment sales rose slightly compared with the same period of the previous year, while gross profit declined sharply.

Place Management Business: Place strategies

In the Place Management business, first-quarter sales were ¥221,091 thousand (a 4.1% decrease compared with the same period of the previous year), and gross profit was ¥75,937 thousand (an increase of 120.9%).

This segment offers place strategy planning services aimed at revitalizing communications, improving productivity and reducing operating costs, as well as support for the execution of strategies.

First-quarter sales rose sharply due to major orders for the highly profitable office brokerage service.

As a result, despite a slight decline in sales, gross profit in this segment for first quarter rose substantially compared with the same period of the previous year.

Other

Other sales totaled ¥6,386 thousand (a 30.4% decrease compared with the same period of the previous year). Sales in this category include speeches at various business events, as well as proceeds from book publishing and articles written for newspapers and business magazines.

2. Qualitative Data on Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets at the end of the first quarter were ¥4,633,795 thousand, down ¥329,646 thousand from the end of the previous fiscal year. The decrease was largely due to factors such as a ¥370,356 thousand decline in cash and deposits and a ¥533,499 thousand decrease in accounts receivable, outweighing a ¥557,035 thousand increase in goodwill. The decline in accounts receivable reflects the fact that most of the Company's sales take place during the fourth quarter.

Total liabilities at the end of the first quarter were ¥1,236,756 thousand, up ¥61,173 thousand from the previous fiscal year-end. The increase is attributable to a rise in short-term loans payable of ¥488,000 thousand, offsetting a ¥297,447 thousand decline in accrued income tax payable accompanying payment of corporate and other taxes.

Total net assets at the end of the first quarter were ¥3,397,038 thousand, down ¥390,820 thousand from the previous fiscal year-end, as a result of factors including the ¥299,766 thousand net loss before income taxes recorded for the first quarter.

Cash Flow

Cash and cash equivalents (hereafter, "Cash") decreased ¥370,356 thousand, to ¥942,137 thousand at the end of the first quarter.

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 ¥3,759 thousand.

The principal factor was a ¥535,468 thousand associated with payments of notes and accounts payable and the collection of accounts receivable, offsetting a ¥299,766 thousand quarterly net loss before income taxes and ¥302,787 thousand in corporate and other taxes were paid.

Cash Flow from Investing Activities

Net cash used in investing activities was ¥436,571 thousand.

The principal factor is the payment of ¥628,249 thousand for the acquisition of shares in E News, Inc., and ¥230,000 thousand in income from the recovery of borrowings.

Cash Flow from Financing Activities

Net cash provided by financing activities was ¥62,456 thousand.

This increase was mainly attributable to ¥500,000 thousand in income from short-term borrowings, advance and scheduled repayments of long-term borrowings totaling ¥223,840 thousand, and the payment of cash dividends totaling ¥168,503 thousand.

3. Qualitative Data on the Forecast of Consolidated Results

There is no adjustment to the forecast for the fiscal year ending December 31, 2009.

4. Other

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

E News, Inc. became a consolidated subsidiary of the Company on January 1, 2009, and is therefore included in the scope of consolidation beginning in the first consolidated quarter under review.

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

Current First Quarter (From January 1, 2009, to March 31, 2009)
(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 age-life method, the portion of depreciation cost for the consolidated fiscal year under review is included.

Current First Quarter (From January 1, 2009, to March 31, 2009)
(Accounting procedures specific to the production 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 the category of Corporate and other taxes in the Statements of Operations.

(3) Changes in Accounting Policies and Procedures and Presentation Methods for Preparation of the Quarterly Consolidated Financial Statements

Current First Consolidated Quarter Period (From January 1, 2009, to March 31, 2009)
(i) From the fiscal year ending March 31, 2010, the Company applies the Accounting Standard for Quarterly Financial Statements (ASB Standard No. 12, issued by the Accounting Standards Board of Japan on March 14, 2007) and the Guidance on Accounting Standard for Quarterly Financial Statements (ASB Guidance No. 14 issued by the Accounting Standards Board of Japan on March 14, 2007). In addition, quarterly consolidated financial statements are produced in compliance with the rules for quarterly consolidated financial statements. Please note that for the first quarter (from January 1, 2009 to March 31, 2009), the amended "Regulations (for Quarterly Consolidated Financial Statements)" have been applied ahead of the date of enforcement of the amendments pursuant to the Proviso of Article 7, Paragraph 1, Item 5 of the "Partial Amendments of Regulations for Terminology, Forms and Preparation Methods of Financial Statements" (Cabinet Office Ordinance No. 50, August 7, 2008). (ii) From the first quarter ended March 31, 2009, the Company applies the Accounting Standard for Measurement of Inventories (ASB Standard No. 9 dated July 5, 2006). Accordingly, the measurement standard for the values entered in balance sheets was changed from the cost method by the gross average method to the cost method by the gross average method of devaluing book value on a decline of profitability. The effect of the change on income and loss in the first quarter ended March 31, 2009 was immaterial.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of March 31, 2009	As of December 31, 2008
ASSETS		
Current assets		
Cash and deposits	992,137	1,362,494
Notes and accounts receivable	1,001,600	1,535,100
Inventories	51,628	162,608
Merchandise and supplies	10,615	10,387
Prepaid expenses	77,247	98,443
Deferred tax assets	204,154	77,233
Other	16,807	25,529
Allowance for doubtful accounts	(5,410)	(7,932)
Total current assets	2,348,781	3,263,863
Fixed assets		
Property and equipment		
Buildings and structures	346,016	326,627
Accumulated depreciation	(147,606)	(140,274)
Buildings and structures - net	198,409	186,353
Furniture and fixtures	353,367	327,628
Accumulated depreciation	(224,264)	(205,090)
Furniture and fixtures - net	129,103	122,538
Total property and equipment	327,513	308,891
Intangible assets		
Goodwill	1,022,485	465,449
Software	284,835	285,749
Other	4,233	3,792
Total intangible assets	1,311,553	754,992
Investments and other assets		
Investments in securities	8,863	9,364
Security deposits	583,023	575,487
Deferred tax assets	14,952	15,538
Claims in bankruptcy	11,550	10,678
Other	39,106	35,304
Allowance for doubtful accounts	(11,550)	(10,678)
Total investments and other assets	645,946	635,694
Total fixed assets	2,285,013	1,699,578
Total assets	4,633,795	4,963,442

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

	As of March 31, 2009	As of December 31, 2008
LIABILITIES		
Current liabilities		
Accounts	264,013	271,881
Short-term borrowings	500,000	12,000
Long-term debt due within one year	51,004	93,643
Accounts payable	217,575	177,241
Expenses payable	18,039	12,619
Accrued income taxes	15,729	313,176
Accrued consumption taxes	23,663	66,481
Advances received	29,202	71,871
Accrued bonuses to employees	47,770	95,440
Accrued bonuses to officers	—	611
Reserve for loss on returned goods	5,411	5,525
Other	59,690	49,324
Total current liabilities	1,232,100	1,169,815
Long-term liabilities		
Long-term debt	4,656	5,786
Total long-term liabilities	4,656	5,786
Total liabilities	1,236,756	1,175,583
NET ASSETS		
Shareholders' equity		
Common stock	979,750	979,750
Additional paid-in capital	734,595	734,595
Retained earnings	1,682,784	2,074,028
Total shareholders' equity	3,397,129	3,788,373
Valuation and translation adjustments		
Unrealized gain on securities	(91)	(515)
Total valuation and translation adjustments	(91)	(515)
Total net assets	3,397,038	3,787,858
Total liabilities and net assets	4,633,795	4,963,442

(2) Consolidated Statements of Operations

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

	Three months ended March 31, 2009
Net sales	1,726,628
Cost of sales	1,017,193
Gross profit	709,435
Selling, general and administrative expenses	994,704
Operating income (loss)	(285,269)
Non-operating income	
Interest income	676
Dividend income	49
Other	1,220
Total non-operating income	1,946
Non-operating expenses	
Interest expenses	1,001
Other	149
Total non-operating loss	1,151
Ordinary income (loss)	(284,473)
Extraordinary loss	
Loss on sale of property and equipment	4,092
Loss on disposal of property and equipment	1,215
Loss on sale of investment securities	7,063
Loss on valuation of investment securities	2,922
Total extraordinary loss	15,293
Income (loss) before income taxes	(299,766)
Income taxes	(98,682)
Net income (loss)	(201,085)

(3) Consolidated Statements of Cash Flow

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

	Three months ended March 31, 2009
I Cash flow from operating activities	
Income (loss) before income taxes	(299,766)
Depreciation and amortization	41,967
Amortization of goodwill	52,250
Increase (decrease) in allowance for doubtful accounts	(1,650)
Increase (decrease) in allowance for employees' bonuses	(47,670)
Increase (decrease) in allowance for officers' bonuses	(611)
Increase (decrease) in reserve for loss on returned goods	(113)
Loss (gain) on sale of investment securities	1,215
Loss on disposal of fixed assets	4,092
Interest and dividend income	(726)
Interest expense	1,001
Decrease (increase) in notes and accounts receivable - trade	570,967
Decrease (increase) in inventories	110,752
Increase (decrease) in notes and accounts payable	(22,771)
Increase (decrease) in accounts payable	(12,727)
Increase (decrease) in advances received	(42,668)
Increase (decrease) in accrued consumption taxes	(46,919)
Decrease (increase) in other current assets	32,732
Increase (decrease) in other current liabilities	7,739
Subtotal	347,094
Interest and dividends received	411
Interest paid	(958)
Income taxes paid	(302,787)
Officers' retirement bonuses	(40,000)
Net cash provided by operating activities	3,759
II Cash flow from investing activities	
Payments for acquisition of property and equipment	(11,187)
Payments for acquisition of intangible fixed assets	(16,327)
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)
Other	(2,287)
Net cash used in investing activities	(436,571)
III Cash flow from financing activities	
Net increase (decrease) in short-term debt	488,000
Repayment of long-term debt	(223,840)
Payments for redemption of bonds	(33,200)
Payment of cash dividends	(168,503)
Net cash provided by (used in) financing activities	62,456
IV Net increase (decrease) in cash and cash equivalents	(370,356)
V Cash and cash equivalents at beginning of period	1,312,494
VI Cash and cash equivalents at end of period	942,137

From the fiscal year ending March 31, 2010, the Company applies the Accounting Standard for Quarterly Financial Statements (ASB Standard No. 12) and the Guidance on Accounting Standard for Quarterly Financial Statements (ASB Guidance No. 14). In addition, quarterly consolidated financial statements are produced in compliance with the rules for quarterly consolidated financial statements.

(4) Notes regarding Assumption of Going Concern

First-quarter period (January 1, 2009 – March 31, 2009)

None applicable.

(5) Segment Information

a. Business Segment Information

b. Geographic Segment Information

First-quarter period (January 1, 2009 – March 31, 2009)

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, 2009 – March 31, 2009)

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, 2009 – March 31, 2009)

None applicable.

(Reference) Consolidated Statements of Operations

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

	Three months ended March 31, 2008
I Net sales	2,137,408
II Cost of sales	950,149
Gross profit	1,187,258
III Selling, general and administrative expenses	941,914
Operating income	245,344
IV Non-operating income	1,931
Interest income	989
Other	941
V Non-operating expenses	688
Interest expenses	598
Other	89
Ordinary income	246,587
VI Extraordinary loss	—
Loss on valuation of investment securities	—
Other	—
Income before income taxes	246,587
Current income taxes	70,229
Deferred income taxes	34,287
Net income	142,070

(Reference) Consolidated Statements of Cash Flow

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

	Three months ended March 31, 2008
I Cash flow from operating activities	
Income before income taxes	246,587
Depreciation and amortization	31,359
Amortization of goodwill	32,649
Increase (decrease) in accrued bonuses to employees	(6,837)
Decrease (increase) in notes and accounts receivable - trade	286,377
Decrease (increase) in inventories	(1,846)
Increase (decrease) in notes and accounts payable	14,657
Decrease in advances received	(73,394)
Decrease in accounts payable	(77,631)
Other	16,965
Subtotal	468,887
Interest and dividends received	1,039
Interest paid	(471)
Income taxes paid	(432,309)
Net cash provided by operating activities	37,146
II Cash flow from investing activities	
Payments for acquisition of property and equipment	(1,743)
Payments for acquisition of intangible fixed assets	(5,800)
Payments for acquisition of business	(80,000)
Payments for security deposits	(31,416)
Other	(2,380)
Net cash used in investing activities	(121,340)
III Cash flow from financing activities	
Increase in short-term borrowings	—
Repayment of long-term debt	(94,000)
Payment of cash dividends	(122,219)
Other	—
Net cash provided by (used in) financing activities	(216,219)
IV Net increase (decrease) in cash and cash equivalents	(300,414)
V Cash and cash equivalents at beginning of period	1,668,877
VI Cash and cash equivalents at end of period	1,368,462