

Consolidated Financial Statements for the Three Months Ended March 31, 2016

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

May 12, 2016

Link and Motivation Inc.
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Stock exchange listing: Tokyo, First Section
Code number: 2170

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Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled): May 12, 2016

Start of distribution of dividends (scheduled): June 24, 2016

Supplementary documents for quarterly results: No

Quarterly results briefing: No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Three Months Ended March 31, 2016 (January 1, 2016 - March 31, 2016)

(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, 2016	8,309	7.6	356	961.8	296	—
Three months ended March 31, 2015	7,720	44.5	33	(51.7)	20	(66.5)

	Net income attributable to owners of the parent (¥ million)	Change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Three months ended March 31, 2016	163	671.6	1.44	—
Three months ended March 31, 2015	21	—	0.18	—

Comprehensive income: For the three months ended March 31, 2016: ¥863 million (—%)
For the three months ended March 31, 2015: ¥22 million (—%)

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)
As of March 31, 2016	19,157	6,556	34.2
As of December 31, 2015	17,474	6,032	34.5

(Reference) Net worth As of March 31, 2016: ¥6,556 million As of December 31, 2015: ¥6,032 million

2. Dividends

	Dividends per share				
	1st Qtr.	Interim	3rd Qtr.	Year-end	Full-year
2015	1.10	1.10	1.10	1.10	4.40
2016	1.25				
2016 (est.)		1.25	1.25	1.25	5.00

Note: Revisions since the most recently announced dividend forecast: No

3. Forecast of Results for 2016 (January 1, 2016 - December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Interim period	—	—	—	—	—	—	—	—	—
Full-year	33,600	5.2	1,620	86.6	1,570	104.6	750	—	6.63

Note: Revisions since the most recently announced forecast of results: No

Notes

- (1) Changes in Significant Subsidiaries during the Period (Changes in Specified Subsidiaries due to Changes in the Scope of Consolidation): No
- (2) Application of Accounting Procedures Specific to the Preparation of Quarterly Consolidated Financial Statements: Yes
- (3) Changes in Accounting Policies, Changes in Accounting Estimates and Restatements
 - (a) Changes in accounting policies in connection with revisions of accounting standards, etc.: Yes
 - (b) Changes in accounting policies other than (a) above: No
 - (c) Changes in accounting estimates: No
 - (d) Restatements: No
- (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, 2016: 113,068,000; Year ended December 31, 2015: 113,068,000
 - (b) Number of treasury shares at the end of the period:
Three months ended March 31, 2016: 1,400,200; Year ended December 31, 2015: 200
 - (c) Average number of shares outstanding (cumulative with earlier quarters):
Three months ended March 31, 2016: 112,820,349; Three months ended March 31, 2015: 113,067,800

Presentation of Implementation Status of Quarterly Review Procedures

- These “Consolidated Financial Statements for the Three Months Ended March 31, 2016” are not subject to quarterly review procedures pursuant to the Financial Instruments and Exchange Act although, as of the date of publication of these statements, the review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Act had been completed.

Explanation of the Proper Use of Performance Forecasts and Other Special Instructions

- Consolidated forecasts and other statements regarding the future contained in this document are based on information currently available to the Company and certain reasonable assumptions. Actual performance may differ substantially due to numerous factors.

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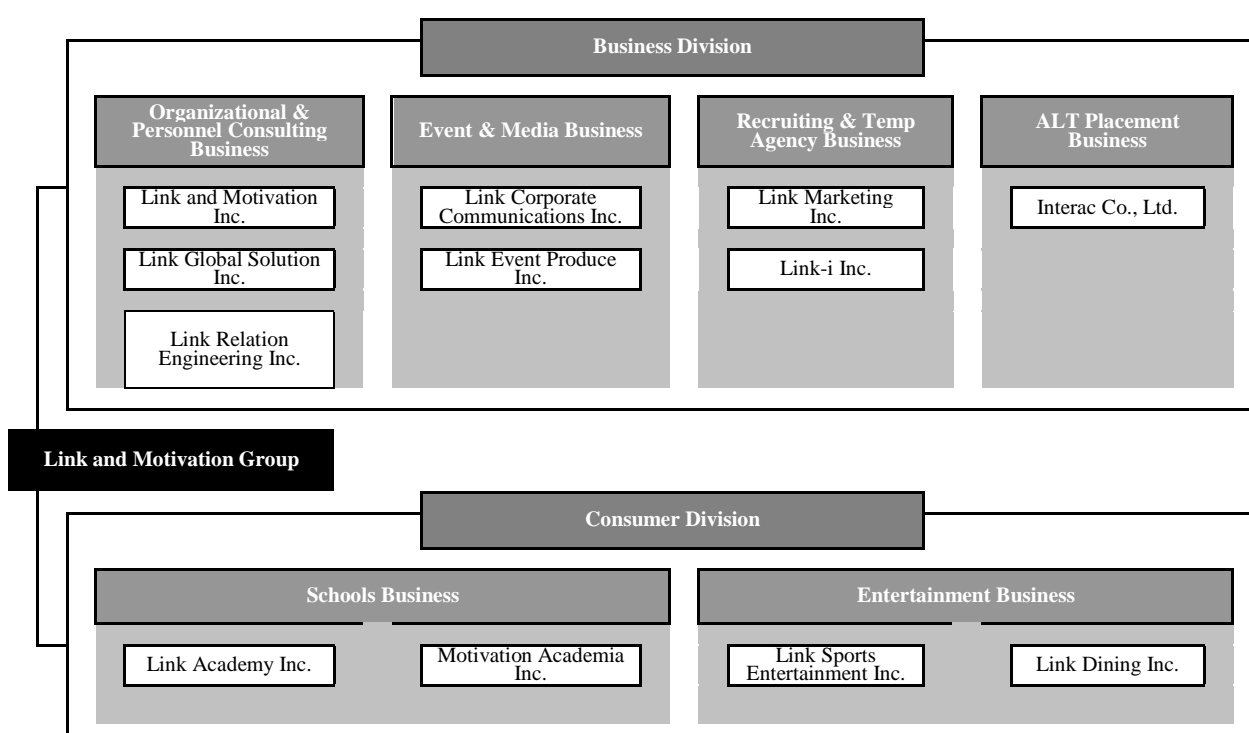
1. Qualitative Information Regarding Results for the Three Months Ended March 31, 2016

(1) Commentary on Results of Operations

In the Japanese economy during the first quarter of 2016 (January 1, 2016 - March 31, 2016), business conditions remained at a standstill as growth in personal consumption and capital investment was blunted by the impact of weakness in overseas economies.

In this operating environment, the Link and Motivation Group's net sales increased 7.6% compared with the same period a year earlier to ¥8,309,807 thousand. In addition, due to a decrease in the cost of sales ratio and more efficient deployment of selling, general and administrative (SG&A) expenses, each level of income increased substantially. Gross profit was ¥2,923,654 thousand (a 15.6% increase), operating income was ¥356,524 thousand (a 961.8% increase), ordinary income was ¥296,262 thousand (a 1,355.8% increase), and net income attributable to owners of the parent was ¥163,264 thousand (a 671.6% increase).

An overview of general conditions by segment and business for the first quarter of 2016 is provided below. The classification of segments and businesses of the Link and Motivation Group is as follows.



Business Division

The Business Division offers services that strengthen relationships with an organization's stakeholders using "Motivation Engineering," which is the core technology of the Link and Motivation Group, with corporations such as companies and schools as its customers.

In this segment, due to solid performance by each business, first quarter segment sales increased substantially compared with the same period a year earlier to ¥6,677,613 thousand (a 9.8% increase). In addition, with the contribution of strong performance by the Organizational & Personnel Consulting business, which has a high profit margin, segment income increased substantially to ¥2,465,775 thousand (a 32.4% increase).

An overview of operating results by business for the first quarter of 2016 is as follows.

Organizational & Personnel Consulting Business

In this business, sales in the first quarter were ¥1,962,582 thousand (a 22.7% increase) and gross profit was ¥1,299,825 thousand (a 62.2% increase).

The Organizational & Personnel Consulting business acts under the concept of producing numerous "motivation companies" in which employee motivation is a company's growth engine. As its method of providing services, the

business diagnoses the state of a company's motivation based on its original diagnostic framework and offers various one-stop solutions for innovations related to organizations and personnel, including recruiting, training, framework and corporate culture.

In the first quarter, in addition to working to reinforce its customer base by promoting sales of membership services and diagnostic products, the business focused on resolving customer issues through consulting based on its diagnostic results. As a result, sales and gross profit both increased substantially compared with the same period a year earlier.

By restructuring its products and services for more substantive resolution of organizational issues in line with rising corporate willingness to invest in human resources, the business will achieve an increase in added value that will lead to further business growth.

Event & Media Business

In this business, sales in the first quarter were ¥819,792 thousand (a 16.9% increase) and gross profit was ¥298,769 thousand (a 93.8% increase).

The Event & Media business produces events and media for various communications in corporate activities to support the "creation of motivation companies" at corporations. In its event production, the business offers assistance in stimulating the interest and promoting the understanding of stakeholders through support for creation of forums such as anniversary events, recruiting presentations, promotional events and shareholders' meetings. In its media production, the business is involved in printed media such as company newsletters, corporate brochures and annual reports for shareholders, as well as web-based media such as corporate websites and investor relations sites and visual media such as videos that explain products and webcasts of shareholders' meetings.

In the first quarter, with growth in the production of anniversary events to share corporate visions and recruiting tools such as websites and company brochures for new graduate recruiting, sales and gross profit both increased substantially compared with the same period a year earlier.

The business will work for growth by developing products with greater advantages using "Motivation Engineering," the Link and Motivation Group's core technology.

Recruiting & Temp Agency Business

In this business, sales in the first quarter were ¥1,957,412 thousand (a 5.3% increase) and gross profit was ¥424,918 thousand (a 2.6% decrease).

The Recruiting & Temp Agency business provides solutions in the form of recruiting and temp agency services for the human resources an organization requires to grow. The main businesses include new graduate recruiting and introduction, which connects university students looking for employment with corporate presentations and interviews, a mid-career introduction service, which matches working adults looking to change jobs with companies, and a temp agency, which dispatches sales, office and other staff.

In the first quarter, the temp agency business grew through its understanding of corporate personnel procurement needs, backed by a lack of human resources. On the other hand, sales of the new graduate recruiting and introduction business decreased compared with the same period a year earlier because the period for job searching activity has been moved back. As a result, sales increased but gross profit decreased compared with the same period a year earlier.

The business will work to increase profitability by further accelerating activities linked to corporate dispatch and introductions for individuals who have improved their skills through the Group's Schools business.

ALT Placement Business

In this business, sales in the first quarter were ¥2,534,940 thousand (a 2.7% increase) and gross profit was ¥716,769 thousand (an 8.5% increase).

The ALT Placement business dispatches foreign assistant language teachers (ALTs) to elementary, junior high and other schools throughout Japan and provides English-language instruction services on contract. In this business, where relationships of trust with customers and a track record extending over many years are important and barriers to entry are extremely high, the Link and Motivation Group has established the number-one share among private companies.

In the first quarter, sales and gross profit both increased compared with the same period a year earlier from capitalizing on the trend toward strengthening English ability in educational guidelines for elementary and junior high schools for the Tokyo Olympics to be held in 2020.

In an operating environment where market expansion is forecast, the business aims for further growth using the personnel training methods built up by the Organizational & Personnel Consulting business as a new advantage to add to its accumulated ALT labor management capability.

Consumer Division

The Consumer Division provides services by applying “Motivation Engineering,” which is the core technology of the Link and Motivation Group, to business for consumers in areas including schools, preparatory schools and sports.

In this segment, segment sales for the first quarter were ¥1,749,462 thousand (an 11.1% decrease) and segment income was ¥526,334 thousand (a 31.3% decrease), substantial decreases for both compared with the same period a year earlier. An overview of operating results by business for the first quarter of 2016 is as follows.

Schools Business

In this business, sales in the first quarter were ¥1,596,303 thousand (a 10.2% decrease) and gross profit was ¥508,700 thousand (a 27.0% decrease).

The Schools business defines human resources who act independently and autonomously, without depending on an organization, as “i-companies” and operates under the business concept of producing numerous i-companies. Its services are broadly divided into the two areas of preparatory schools for middle and high school students and career schools for university students and working adults. Preparatory schools provide a place where students can not only prepare for school entrance exams but also develop skills to play a role in society under the “Motivation Academia” service brand. Career schools provide one-stop support for career advancement through the acquisition of literacy skills qualifications under the four service brands of “Aviva” personal computer schools, “Daiei” qualification schools, “Aviva English” language schools and the newly established “Aviva Pro” IT schools.

In the first quarter, performance was affected by the suspension of transactions among Group companies to focus on sales to external customers. However, due to growth in programming courses to acquire the IT skills strongly needed by companies and courses to prepare for national examinations and civil service examinations, sales and gross profit from transactions with external customers both increased compared with the same period a year earlier.

The business will enhance its courses as a total career school and establish comprehensive services from providing career guidance to offering employment opportunities in collaboration with the Recruiting & Temp Agency business. By doing so, it aims to raise the loyalty of existing customers and attract more new customers.

Entertainment Business

In this business, sales in the first quarter were ¥156,463 thousand (a 21.2% decrease) and gross profit was ¥18,606 thousand (a 73.7% decrease).

The Entertainment business manages a professional basketball team and operates Italian restaurants under the concept of “creating quality of life” for individuals. The professional basketball team managed by the business is the Link Tochigi Brex, which is based in Tochigi, and revenues consist mainly of sales of tickets for games and goods and sponsorship income. The Italian restaurant operation, called Link Dining, has two locations: one in Ginza and one new restaurant in Kitashinchi.

In the first quarter, the number of spectators for the Link Tochigi Brex increased, but sponsorship income fell significantly short of expectations, and sales and gross profit both decreased substantially compared with the same period a year earlier.

(2) Analysis of Financial Condition

A. Assets, Liabilities and Net Assets

As of March 31, 2016, total assets were ¥19,157,156 thousand (an increase of ¥1,682,652 thousand from the end of the previous year), liabilities were ¥12,600,375 thousand (an increase of ¥1,158,388 thousand from the end of the previous year), and net assets were ¥6,556,781 thousand (a decrease of ¥524,264 thousand from the end of the previous year).

2. Items Regarding Summary Information (Notes)

(1) Changes in Significant Subsidiaries for the Three Months Ended March 31, 2016

None applicable.

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

	Three months ended March 31, 2016
Calculation of tax expenses	Tax expenses are calculated by multiplying pretax net income for the fiscal year by a reasonable estimate of the effective tax rate after application of tax effect accounting to pretax net income.

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

Three months ended March 31, 2016
<p>(Change in Accounting Policies)</p> <p>From the three months ended March 31, 2016, the Company has adopted standards including “Accounting Standard for Business Combinations” (ASBJ Statement No. 21 issued on September 13, 2013, hereinafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 issued on September 13, 2013, hereinafter “Consolidated Accounting Standard”) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 issued on September 13, 2013, hereinafter “Business Divestitures Accounting Standard”) and has changed to a method in which the difference made by changes in the ownership interest in subsidiaries in which the Company retains a controlling interest is recorded as capital surplus, and acquisition-related costs are treated as expenses in the consolidated fiscal year in which they are incurred. In addition, for business combinations carried out at or after the beginning of the three months ended March 31, 2016, the Company has changed to a method in which the reallocation of acquisition costs, as determined after reviewing provisional accounting treatment, is reflected in the quarterly consolidated financial statements for the period in which the business combination took place. The Company also changed the manner in which quarterly net income and other items are presented, and changed “minority interests” to “non-controlling interests.” The quarterly consolidated financial statements for the first quarter of the previous fiscal year and the consolidated financial statements for the previous fiscal year have been reclassified to reflect these changes.</p> <p>The Company has adopted these accounting standards as of the beginning of the three months ended March 31, 2016 and will apply them thereafter in accordance with the transitional handling set forth in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidated Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard.</p> <p>The impact of these changes on the consolidated quarterly financial statements is immaterial.</p>

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of December 31, 2015	As of March 31, 2016
ASSETS		
Current assets		
Cash and deposits	997,295	1,114,761
Notes and accounts receivable	3,724,562	3,738,575
Products	75,596	92,970
Goods in process	63,132	89,556
Merchandise and supplies	37,388	35,388
Prepaid expenses	340,885	368,449
Deferred tax assets	221,883	224,126
Short-term loans receivable	17,130	13,585
Accrued corporate tax refund	56,855	65,425
Accrued consumption tax	23,173	2,925
Other	323,695	360,447
Allowance for doubtful accounts	(29,948)	(122,285)
Total current assets	5,851,650	5,983,927
Fixed assets		
Property and equipment		
Buildings and structures	1,187,950	1,293,933
Accumulated depreciation	(574,327)	(594,793)
Buildings and structures (net)	613,623	699,140
Vehicles	13,048	12,084
Accumulated depreciation	(11,869)	(11,002)
Vehicles (net)	1,179	1,082
Furniture and fixtures	685,251	702,430
Accumulated depreciation	(569,581)	(580,468)
Furniture and fixtures (net)	115,669	121,961
Lease assets	509,366	513,850
Accumulated depreciation	(260,930)	(272,614)
Lease assets (net)	248,436	241,236
Construction in progress	—	4,544
Total property and equipment	978,908	1,067,965
Intangible assets		
Goodwill	7,070,661	6,887,224
Software	536,001	548,682
Other	6,389	73,662
Total intangible assets	7,613,053	7,509,568
Investments and other assets		
Investments in securities	1,606,920	2,782,628
Security deposits	1,258,079	1,680,863
Deferred tax assets	18,553	17,068
Claims in bankruptcy	10,878	10,878
Other	190,941	109,866
Allowance for doubtful accounts	(60,878)	(10,878)
Total investments and other assets	3,024,494	4,590,427
Total fixed assets	11,616,456	13,167,961
Deferred assets		
Stock issuance expenses	6,396	5,267
Total deferred assets	6,396	5,267
Total assets	17,474,503	19,157,156

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

	As of December 31, 2015	As of March 31, 2016
LIABILITIES		
Current liabilities		
Accounts	322,478	376,211
Short-term borrowings	3,008,636	3,700,000
Long-term debt due within one year	621,512	804,612
Accounts payable	1,580,736	1,542,168
Lease obligations	102,745	116,037
Expenses payable	155,842	59,097
Accrued income taxes	426,525	203,189
Accrued consumption taxes	433,227	494,022
Advances received	1,727,406	1,750,810
Accrued bonuses to employees	194,302	266,770
Accrued bonuses to officers	29,800	14,984
Other	263,430	359,005
Total current liabilities	8,866,643	9,686,910
Long-term liabilities		
Long-term debt	2,130,676	2,080,798
Lease obligations	156,887	196,276
Deferred income taxes	21,131	368,931
Asset retirement obligations	88,266	94,473
Other	178,381	172,985
Total long-term liabilities	2,575,343	2,913,465
Total liabilities	11,441,986	12,600,375
NET ASSETS		
Shareholders' equity		
Common stock	1,380,610	1,380,610
Capital surplus	2,146,648	2,146,648
Retained earnings	2,482,106	2,521,925
Treasury stock	(44)	(215,927)
Total shareholders' equity	6,009,320	5,833,256
Cumulative other comprehensive income		
Unrealized gain (loss) on securities	15,399	720,996
Deferred gain (loss) on hedges	41	(1,913)
Foreign currency translation adjustment	7,755	4,442
Total cumulative other comprehensive income	23,196	723,524
Total net assets	6,032,516	6,556,781
Total liabilities and net assets	17,474,503	19,157,156

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

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

	Three months ended March 31, 2015	Three months ended March 31, 2016
Net sales	7,720,830	8,309,807
Cost of sales	5,191,254	5,386,153
Gross profit	2,529,575	2,923,654
Selling, general and administrative expenses	2,495,997	2,567,129
Operating income	33,577	356,524
Non-operating income		
Interest income	1,944	1,606
Dividend income	1	51
Commission fees	3,082	360
Other	3,211	2,847
Total non-operating income	8,239	4,866
Non-operating expenses		
Interest expenses	10,783	11,997
Commission fees	7,957	48
Carryover of allowance for doubtful accounts	—	50,000
Other	2,725	3,083
Total non-operating expenses	21,466	65,129
Ordinary income	20,350	296,262
Extraordinary income		
Compensation received	31,188	88,360
Gain on sale of property and equipment	—	150
Other extraordinary income	666	—
Total extraordinary income	31,854	88,510
Extraordinary loss		
Loss on disposal of property and equipment	11	471
Loss on impairment	5,157	—
Business structure improvement expenses	432	2,753
Loss on valuation of investment securities	—	27,706
Total extraordinary loss	5,601	30,932
Income before income taxes	46,604	353,840
Total income taxes	25,445	190,575
Income before non-controlling interests	21,158	163,264
Net income	21,158	163,264

Consolidated Statements of Comprehensive Income

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

	Three months ended March 31, 2015	Three months ended March 31, 2016
Income before non-controlling interests	21,158	163,264
Other comprehensive income		
Unrealized gain on securities	(481)	705,597
Foreign currency translation adjustment	2,314	(3,313)
Deferred gain (loss) on hedges	—	(1,955)
Total other comprehensive income	1,832	700,328
Comprehensive income	22,990	863,592
(Attributable to)		
Owners of the parent	22,980	863,592

(3) Notes to Consolidated Financial Statements

Notes Regarding Assumption of Going Concern

None applicable.

Notes on Significant Changes to Shareholders' Equity

None applicable.

Segment Information, etc.

Segment Information

I. First quarter of 2015 (January 1, 2015 – March 31, 2015)

1. Sales and Income by Reportable Segment

(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	6,019,667	1,701,162	7,720,830	—	7,720,830
Intersegment sales and transfers	62,934	266,756	329,690	(329,690)	—
Total	6,082,601	1,967,918	8,050,520	(329,690)	7,720,830
Segment income (Note 2)	1,862,137	765,693	2,627,830	(98,255)	2,529,575

Notes: 1. Adjustments represent elimination of intersegment transactions.

2. Segment income is gross profit.

2. Assets by Reportable Segment

None applicable.

3. Loss on Impairment of Fixed Assets and Goodwill by Reportable Segment

(Significant loss on impairment of fixed assets)

None applicable.

(Significant changes in goodwill)

None applicable.

(Significant gains on negative goodwill)

None applicable.

II. First quarter of 2016 (January 1, 2016 – March 31, 2016)

1. Sales and Income by Reportable Segment

(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	6,610,103	1,699,704	8,309,807	—	8,309,807
Intersegment sales and transfers	67,509	49,758	117,268	(117,268)	—
Total	6,677,613	1,749,462	8,427,075	(117,268)	8,309,807
Segment income (Note 2)	2,465,775	526,334	2,992,109	(68,455)	2,923,654

Notes: 1. Adjustments represent elimination of intersegment transactions.

2. Segment income is gross profit.

2. Assets by Reportable Segment

None applicable.

3. Loss on Impairment of Fixed Assets and Goodwill by Reportable Segment

(Significant loss on impairment of fixed assets)

None applicable.

(Significant changes in goodwill)

None applicable.

(Significant gains on negative goodwill)

None applicable.