

Consolidated Financial Statements for the First Half of 2016

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

August 9, 2016

Link and Motivation Inc.

http://www.lmi.ne.jp

Representative: Yoshihisa Ozasa, Chairman and Representative Director

Contact: Shunichi Ohno, Director and

Manager of Group Design Division

Filing of Quarterly Report (*Shihanki Hokokusho*) (scheduled):

Start of distribution of dividends (scheduled):

Supplementary documents for quarterly results:

Quarterly results briefing:

Stock exchange listing: Tokyo, First Section

Code number: 2170

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August 10, 2016

September 23, 2016

No

No

(Amounts are rounded down to the nearest million.)

1. Consolidated Results for the Six Months Ended June 30, 2016 (January 1, 2016 - June 30, 2016)

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

	Net sales (¥ million)	Change (%)	Operating income (¥ million)	Change (%)	Ordinary income (¥ million)	Change (%)
Six months ended June 30, 2016	17,098	7.1	1,001	98.4	932	94.0
Six months ended June 30, 2015	15,969	21.0	504	(10.9)	480	(11.1)

Note: Comprehensive income Six months ended June 30, 2016: ¥1,290 million (488.9%)

Six months ended June 30, 2015: ¥219 million (26.3%)

	Net income attributable to owners of the parent (¥ million)	Change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Six months ended June 30, 2016	600	177.3	5.36	—
Six months ended June 30, 2015	216	24.7	1.91	—

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)
As of June 30, 2016	19,056	6,185	32.5
As of December 31, 2015	17,474	6,032	34.5

Reference: Net worth As of June 30, 2016: ¥6,185 million

As of December 31, 2015: ¥6,032 million

2. Dividends

	Dividends per share				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Year-end	Total
2015	1.10	1.10	1.10	1.10	4.40
2016	1.25	1.25			
2016 (est.)			1.40	1.40	5.30

Note: Revisions since the most recently announced dividend forecast: Yes

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

(Percentages represent change compared with the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Full-year	34,000	6.4	1,650	90.1	1,600	108.6	1,000	—	8.94

Note: Revision of forecast of results during the quarter: Yes

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)
Six months ended June 30, 2016: 113,068,000; Year ended December 31, 2015: 113,068,000
 - (b) Number of treasury shares at the end of the period:
Six months ended June 30, 2016: 5,100,200; Year ended December 31, 2015: 200
 - (c) Average number of shares outstanding (cumulative with earlier quarters):
Six months ended June 30, 2016: 111,838,580; Six months ended June 30, 2015: 113,067,800

Presentation of Implementation Status of Quarterly Review Procedures

- These “Consolidated Financial Statements for the First Half of 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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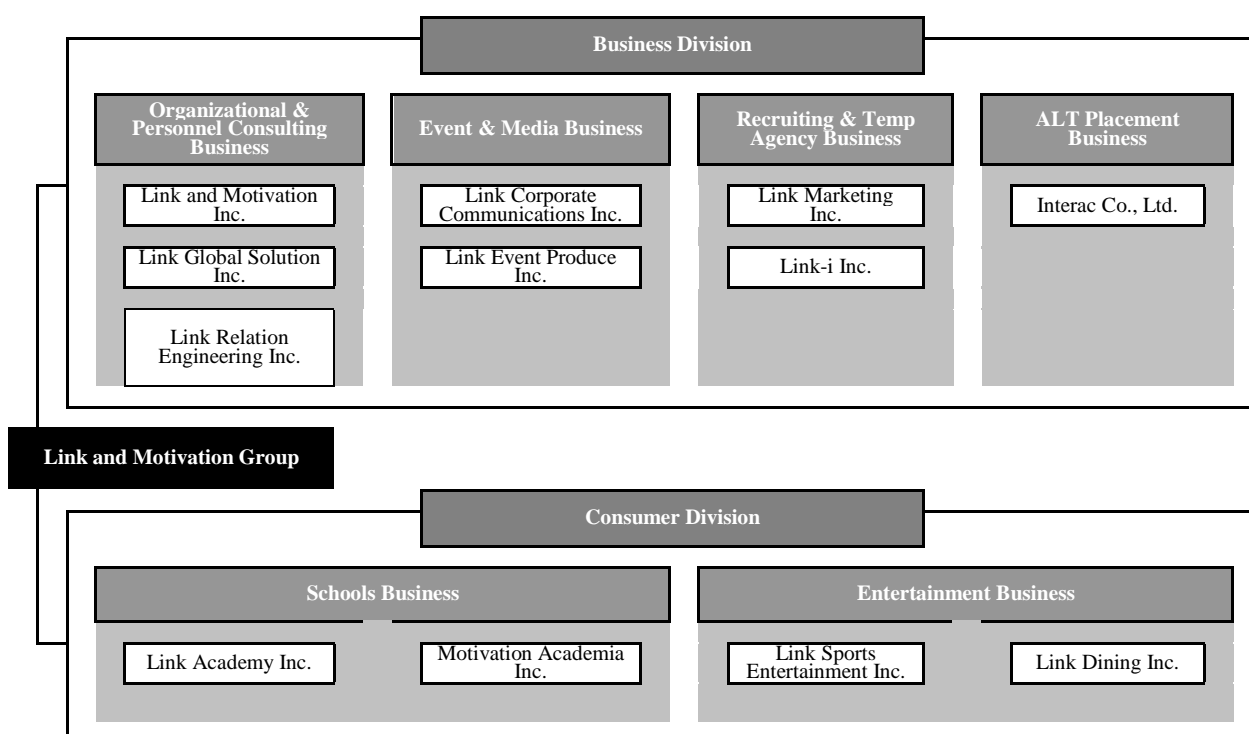
1. Qualitative Information Regarding Results for the Six Months Ended June 30, 2016

(1) Commentary on Results of Operations

In the Japanese economy during the first half of 2016 (January 1, 2016 – June 30, 2016), business conditions remained at a standstill as growth in personal consumption and capital investment was blunted by the appreciation of the yen and lower stock prices due to the impact of weakness in overseas economies as a result of the United Kingdom’s decision to leave the European Union and other factors.

In this operating environment, the Link and Motivation Group’s net sales increased 7.1% compared with the same period a year earlier to ¥17,098,600 thousand. In addition, due to improvement in the profit margin and an increase in extraordinary income, each level of income increased substantially. Gross profit was ¥6,210,852 thousand (a 13.3% increase), operating income was ¥1,001,494 thousand (a 98.4% increase), ordinary income was ¥932,559 thousand (a 94.0% increase), and net income attributable to owners of the parent was ¥600,275 thousand (a 177.3% increase).

An overview of general conditions by segment and business for the first half 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 half segment sales increased substantially compared with the same period a year earlier to ¥13,744,196 thousand (a 9.4% 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 ¥5,193,724 thousand (a 27.3% increase).

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

Organizational & Personnel Consulting Business

In this business, sales in the first half were ¥4,238,424 thousand (a 24.9% increase) and gross profit was ¥2,846,486 thousand (a 58.3% 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 half, consulting and outsourcing services with the theme of strengthening sales capabilities grew as the business captured rising corporate needs for sales promotion. 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 half were ¥1,839,282 thousand (a 13.6% increase) and gross profit was ¥673,045 thousand (a 64.6% 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 half, with growth in production of anniversary events and media production including streaming video, which are high-margin products, 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 half were ¥3,849,220 thousand (a 0.1% decrease) and gross profit was ¥878,247 thousand (a 7.8% 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 sales and marketing temp staff and agency service, which dispatches temporary sales and office staff and handles corporate sales activities.

In the first half, the temp staff 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 substantially compared with the same period a year earlier because of a strategic focus by the Company and its Group companies on strengthening their new graduate recruiting. As a result, sales were basically unchanged and 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 half were ¥5,063,244 thousand (a 4.8% increase) and gross profit was ¥1,355,112 thousand (a 5.8% 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 barriers to entry are extremely high due to the importance placed on relationships of trust with customers and a company's track record, the Link and Motivation Group has established the number-one share among private companies.

In the first half, 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.

The business will use the personnel training capabilities accumulated by the Organizational & Personnel Consulting business as a new advantage, in addition to the ability to recruit foreign employees and labor management capability it has built up. By doing so, it aims to further expand its business domain by capturing the employment needs of foreigners in the growing inbound market in addition to the existing ALT Placement Business.

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 half were ¥3,636,097 thousand (a 9.4% decrease) and segment income was ¥1,187,058 thousand (a 25.0% decrease), a decrease in segment sales and a substantial decrease in segment income compared with the same period a year earlier. An overview of operating results by business for the first half of 2016 is as follows.

Schools Business

In this business, sales in the first half were ¥3,279,719 thousand (a 9.6% decrease) and gross profit was ¥1,085,634 thousand (a 24.1% 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 three service brands of “Aviva” personal computer schools, “Daiei” qualification schools and “Aviva Pro” IT schools.

In the first half, 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 half were ¥365,739 thousand (an 8.8% decrease) and gross profit was ¥104,637 thousand (a 34.2% 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 in Kitashinchi.

In the first half, the number of spectators for the Link Tochigi Brex increased, but sponsorship income fell short of expectations, resulting in a decrease in sales and a substantial decrease in gross profit compared with the same period a year earlier.

(2) Commentary on Financial Condition

A. Assets, Liabilities and Net Assets

As of June 30, 2016, total assets were ¥19,056,079 thousand (an increase of ¥1,581,575 thousand from the end of the previous year), liabilities were ¥12,870,784 thousand (an increase of ¥1,428,798 thousand from the end of the previous year), and net assets were ¥6,185,294 thousand (an increase of ¥152,777 thousand from the end of the previous year).

B. Cash Flow

Cash and cash equivalents during the six months ended June 30, 2016 decreased ¥31 million to ¥965 million (a 5.2% decrease compared with the same period of the previous year). Net cash provided by operating activities was ¥979 million (net cash provided in the same period of the previous year was ¥860 million), net cash used in investing activities was ¥877 million (net cash used in the same period of the previous year was ¥1,164 million), and net cash used in financing activities was ¥126 million (net cash used in the same period of the previous year was ¥304 million).

(3) Commentary on Information on Outlook, Including Forecast of Consolidated Results

Based on recent performance trends, the full-year forecast for 2016 (January 1, 2016 – December 31, 2016) has been revised from the announcement made in “Consolidated Financial Statements for the Fiscal Year Ended December 31, 2015,” dated February 12, 2016.

For details, see “Revision of Forecast of Results,” announced today (August 10, 2016).

2. Items Regarding Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period

None applicable.

Please note that, although it is not applicable as a change in a specified subsidiary, during the six months ended June 30, 2016 the Company removed Link Sports Entertainment Inc., which was a consolidated subsidiary, from the scope of consolidation as a result of the sale of all of its shares.

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

Six months ended June 30, 2016	
Calculation of tax expenses	Tax expenses are calculated by multiplying pretax net income for the fiscal year, including the six months ended June 30, 2016, 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

Six months ended June 30, 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 half 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 financial statements for the six months ended June 30, 2016 is immaterial.</p>	
<p>(Change in Depreciation Method)</p> <p>Associated with the revision of the Corporation Tax Law, the Company has applied “Practical Solution on a change in depreciation method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32 issued on June 17, 2016) as of the six months ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and structures that were acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.</p> <p>The impact of this change on the quarterly consolidated financial statements for the six months ended June 30, 2016 is immaterial.</p>	

(4) Additional Information

(Allowance for Shareholders' Benefits)

Associated with the introduction of a shareholder special benefit plan, the Company records the estimated amount of expenses incurred pursuant to the shareholder special benefit plan from the six months ended June 30, 2016.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of December 31, 2015	As of June 30, 2016
ASSETS		
Current assets		
Cash and deposits	997,295	965,992
Notes and accounts receivable	3,724,562	3,718,538
Products	75,596	74,434
Goods in process	63,132	64,435
Merchandise and supplies	37,388	38,662
Prepaid expenses	340,885	296,802
Deferred tax assets	221,883	223,925
Short-term loans receivable	17,130	33,849
Accrued corporate tax refund	56,855	491,117
Accrued consumption tax	23,173	195,162
Other	323,695	175,060
Allowance for doubtful accounts	(29,948)	(42,278)
Total current assets	5,851,650	6,235,702
Fixed assets		
Property and equipment		
Buildings and structures	1,187,950	1,247,853
Accumulated depreciation	(574,327)	(588,221)
Buildings and structures (net)	613,623	659,632
Vehicles	13,048	4,130
Accumulated depreciation	(11,869)	(3,785)
Vehicles (net)	1,179	344
Furniture and fixtures	685,251	676,890
Accumulated depreciation	(569,581)	(560,324)
Furniture and fixtures (net)	115,669	116,565
Lease assets	509,366	527,936
Accumulated depreciation	(260,930)	(299,560)
Lease assets (net)	248,436	228,376
Total property and equipment	978,908	1,004,918
Intangible assets		
Goodwill	7,070,661	6,703,787
Software	536,001	433,118
Other	6,389	66,323
Total intangible assets	7,613,053	7,203,229
Investments and other assets		
Investments in securities	1,606,920	2,744,643
Security deposits	1,258,079	1,670,968
Deferred tax assets	18,553	17,068
Claims in bankruptcy	10,878	11,127
Other	190,941	274,210
Allowance for doubtful accounts	(60,878)	(109,927)
Total investments and other assets	3,024,494	4,608,090
Total fixed assets	11,616,456	12,816,238
Deferred assets		
Stock issuance expenses	6,396	4,138
Total deferred assets	6,396	4,138
Total assets	17,474,503	19,056,079

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

	As of December 31, 2015	As of June 30, 2016
LIABILITIES		
Current liabilities		
Accounts	322,478	262,022
Short-term borrowings	3,008,636	3,700,000
Long-term debt due within one year	621,512	835,512
Accounts payable	1,580,736	1,594,081
Lease obligations	102,745	114,775
Expenses payable	155,842	102,908
Accrued income taxes	426,525	406,002
Accrued consumption taxes	433,227	612,530
Advances received	1,727,406	1,730,364
Accrued bonuses for employees	194,302	252,028
Accrued bonuses for officers	29,800	26,093
Allowance for shareholders' benefits	—	24,649
Other	263,430	262,231
Total current liabilities	8,866,643	9,923,200
Long-term liabilities		
Long-term debt	2,130,676	2,173,320
Lease obligations	156,887	179,053
Deferred income taxes	21,131	333,802
Asset retirement obligations	88,266	91,958
Other	178,381	169,449
Total long-term liabilities	2,575,343	2,947,584
Total liabilities	11,441,986	12,870,784
NET ASSETS		
Shareholders' equity		
Common stock	1,380,610	1,380,610
Additional paid-in capital	2,146,648	2,146,648
Retained earnings	2,482,106	2,818,416
Treasury stock	(44)	(873,547)
Total shareholders' equity	6,009,320	5,472,127
Cumulative other comprehensive income		
Unrealized gain on securities	15,399	714,589
Deferred gain (loss) on hedges	41	(3,655)
Foreign currency translation adjustment	7,755	2,232
Total cumulative other comprehensive income	23,196	713,166
Total net assets	6,032,516	6,185,294
Total liabilities and net assets	17,474,503	19,056,079

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

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

	Six months ended June 30, 2015	Six months ended June 30, 2016
Net sales	15,969,801	17,098,600
Cost of sales	10,487,139	10,887,747
Gross profit	5,482,661	6,210,852
Selling, general and administrative expenses	4,977,900	5,209,358
Operating income	504,761	1,001,494
Non-operating income		
Interest income	338	700
Dividend income	1	84
Commission fees	5,991	5,876
Other	4,607	8,184
Total non-operating income	10,938	14,845
Non-operating expenses		
Interest expenses	20,001	22,894
Commission expenses	10,597	—
Carryover of allowance for doubtful accounts	—	50,000
Other	4,502	10,886
Total non-operating expenses	35,101	83,781
Ordinary income	480,599	932,559
Extraordinary income		
Gain on sale of property and equipment	—	150
Compensation received	31,188	88,360
Gain on sales of subsidiaries' stocks	—	51,894
Other	961	—
Total extraordinary income	32,149	140,404
Extraordinary loss		
Loss on disposal of property and equipment	2,322	30,898
Loss on valuation of investment securities	—	27,706
Loss on cancellation of leasehold contracts	3,459	—
Loss on impairment	5,157	401
Business structure improvement expenses	1,340	4,081
Loss on valuation of investments in capital	—	14,554
Other	—	16,000
Total extraordinary loss	12,280	93,643
Income before income taxes	500,468	979,320
Total income taxes	283,975	379,045
Net income	216,492	600,275
Net income attributable to owners of the parent	216,492	600,275

Consolidated Statements of Comprehensive Income

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

	Six months ended June 30, 2015	Six months ended June 30, 2016
Net income	216,492	600,275
Other comprehensive income		
Unrealized gain (loss) on securities	(1,168)	699,190
Deferred gain (loss) on hedges	927	(3,696)
Foreign currency translation adjustment	2,844	(5,522)
Total other comprehensive income	2,602	689,970
Comprehensive income	219,094	1,290,245
(Attributable to)		
Owners of the parent	219,094	1,290,245

(3) Consolidated Statements of Cash Flow

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

	Six months ended June 30, 2015	Six months ended June 30, 2016
Cash flow from operating activities		
Income before income taxes	500,468	979,320
Depreciation and amortization	258,037	277,820
Loss on impairment	5,157	401
Amortization of goodwill	366,874	366,874
Increase (decrease) in allowance for doubtful accounts	8,096	61,378
Increase (decrease) in accrued bonuses for employees	42,826	59,158
Increase (decrease) in accrued bonuses for officers	35,090	(2,256)
Increase (decrease) in allowance for shareholders' benefits	—	24,649
Increase (decrease) in provision for loss on store closure	(18,259)	—
Loss (gain) on valuation of investment securities	—	27,706
Loss (gain) on sales of subsidiaries' stocks	—	(51,894)
Compensation received	(31,188)	(88,360)
Loss on disposal of fixed assets	2,322	30,898
Interest and dividend income	(340)	(785)
Interest expense	20,001	22,894
Decrease (increase) in notes and accounts receivable – trade	237,692	(39,182)
Decrease (increase) in inventories	(19,343)	(19,372)
Increase (decrease) in notes and accounts payable	65,472	(33,392)
Increase (decrease) in accounts payable	96,722	2,130
Increase (decrease) in advances received	184,274	38,188
Increase (decrease) in long-term accounts payable	(17,861)	(8,931)
Increase (decrease) in accrued consumption taxes	(357,379)	6,253
Other	(146,273)	101,422
Subtotal	1,232,391	1,754,922
Interest and dividends received	340	1,376
Interest paid	(19,819)	(22,376)
Proceeds from compensation	31,188	88,360
Income tax refund	6,891	56,948
Income taxes paid	(390,580)	(900,145)
Net cash provided by operating activities	860,411	979,095
Cash flow from investing activities		
Payments for acquisition of property and equipment	(283,885)	(114,388)
Payments for acquisition of intangible fixed assets	(203,894)	(147,480)
Payments for acquisition of investment securities	(516,308)	(150,018)
Payments for acquisition of subsidiary stock due to a change in the scope of consolidation	—	(22,800)
Payments for loans	(22,275)	(54,107)
Proceeds from recovery of short-term loans	—	37,388
Payments for investments in capital of subsidiaries and affiliates	(7,500)	—
Payments for security deposits and guarantees	(170,113)	(455,644)
Proceeds from recovery of security deposits and guarantees	40,986	33,258
Other	(1,758)	(4,114)
Net cash used in investing activities	(1,164,749)	(877,907)
Cash flow from financing activities		
Increase (decrease) in short-term debt	947,436	768,363
Proceeds from long-term loans payable	—	647,800
Repayment of long-term debt	(336,756)	(343,356)
Repayment of lease obligations	(57,294)	(62,371)
Payments for purchase of treasury stock	—	(873,503)
Payment of cash dividends	(248,899)	(263,895)
Net cash used in financing activities	(304,485)	(126,962)
Cash and cash equivalents translation adjustment	2,844	(5,527)
Net increase (decrease) in cash and cash equivalents	2,992	(31,302)
Cash and cash equivalents at beginning of period	1,016,304	997,295
Cash and cash equivalents at end of period	1,019,297	965,992

(4) Notes to Consolidated Financial Statements

Notes Regarding Assumption of Going Concern

None applicable.

Notes on Significant Changes in Shareholders' Equity

None applicable.

Segment Information

Segment Information

I. Six months ended June 30, 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	12,447,626	3,522,175	15,969,801	—	15,969,801
Intersegment sales and transfers	113,350	493,157	606,508	(606,508)	—
Total	12,560,977	4,015,332	16,576,309	(606,508)	15,969,801
Segment income (Note 2)	4,081,002	1,583,605	5,664,608	(181,946)	5,482,661

Notes: 1. Adjustment represents 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. Six months ended June 30, 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	13,578,723	3,519,876	17,098,600	—	17,098,600
Intersegment sales and transfers	165,472	116,220	281,693	(281,693)	—
Total	13,744,196	3,636,097	17,380,293	(281,693)	17,098,600
Segment income (Note 2)	5,193,724	1,187,058	6,380,783	(169,930)	6,210,852

Notes: 1. Adjustment represents 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.

Business Combinations, etc.

Business Divestiture

Sale of Stock of a Subsidiary

1. Overview of sale

(1) Name and details of business of subsidiary

Name: Tochigi Brex Inc.

Details of business: Operation of “Link Tochigi Brex” professional basketball team

(2) Reasons for the sale

Link Sports Entertainment Inc. became a consolidated subsidiary of the Company in 2009 with the intention of demonstrating the effectiveness of “Motivation Engineering,” the Company’s core technology, in the field of sports. Having judged that the company has sufficiently fulfilled that role with its record over the past eight years, the Company decided to transfer its stock to Tochigi Brex Inc., which is headquartered in Tochigi.

In addition, from the standpoint of the Link and Motivation Group’s priority theme of concentrating management resources in the three areas of (1) the organizational development business of the Business Division (Consulting & Outsourcing Business), (2) the individual development business of the Consumer Division (Schools Business) and (3) the matching business for synergy between these two division (Personnel Placement & Temp Staff Business), the Company decided to transfer the stock and carried out the transfer.

(3) Date of business divestiture

June 30, 2016 (date of sale of stock)

(4) Other items of the transaction, including the legal form

Share transfer in which cash was the only consideration for the shares

2. Overview of accounting treatment applied

(1) Appropriate book value of the asset and liabilities of the business transferred and its breakdown

Current assets ¥222,262 thousand

Fixed assets ¥9,661 thousand

Total assets ¥231,923 thousand

Current liabilities ¥214,217 thousand

Long-term liabilities ¥19,600 thousand

Total liabilities ¥233,817 thousand

(2) Accounting treatment

The difference between the book value upon consolidation of Link Sports Entertainment Inc. and its sales value is recorded in extraordinary income as “Gain on sales of subsidiaries’ stocks.”

3. Reportable segment in which the subsidiary was included

Consumer Division

4. Estimated amount of profit or loss of the divested business that was recorded in consolidated statement of operations for the six months ended June 30, 2016

	Six months ended <u>June 30, 2016</u>
Net sales	¥294,604 thousand
Operating loss	¥56,347 thousand