

OUTSOURCING Inc.
(JASDAQ 2427)

Business Results

For the First-Half of Fiscal Year Ending December 31, 2009
August, 2009

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Financial Summary
for the First Half of Fiscal Year
Ending December 31, 2009



Highlights of Consolidated Business Results

- Net sales and gross profit decreased year-on-year by 37% and 47% respectively, due to the recession and ensuing production cutbacks by client-manufacturers
- The automotive and semiconductor industries were hit particularly hard by the recession, but both seem to have bottomed out in the latter half of the 2Q
- The number of onsite workers seem to have hit bottom in April, with the same for net sales in May, and both show signs of recovering since then
- As net sales declined, SG&A expenses fell by ¥155 million y-o-y
- While production cutbacks led to an employment adjustment expense of ¥320 million, it was posted under cost of sales (Many of our competitors wrote it off as an extraordinary loss.)
- Established in October 2008, ORJ INC. returned to profitability in March and is expected to post greater growth

Financial Summary for FY12/09 1HF



Summary of Consolidated Business Results for the 1HF of FY12/09

Consolidated (¥Million)	FY12/08 1HF		FY12/09 1HF		Year-on-Year	
	Amount	Composition Ratio	Amount	Composition Ratio	Change in Amount	Change in Percentage
Net Sales	12,195	100.0%	7,733	100.0%	Δ4,461	-36.6%
Gross Profit on Sales	2,233	18.3%	1,175	15.2%	Δ1,057	-47.4%
SG&A Expenses	1,705	14.0%	1,550	20.0%	Δ155	-9.1%
Operating Income	528	4.3%	Δ374	-4.8%	Δ902	n.a
Ordinary Income	552	4.5%	Δ306	-4.0%	Δ859	n.a
Interim Net Income	311	2.6%	Δ401	-5.2%	Δ713	n.a

Summary of Non-Consolidated Business Results for FY12/09 1HF



Summary of Non-Consolidated Business Results for the 1H of FY12/09

OUTSOURCING Inc. only (¥Million)	FY12/08 1HF		FY12/09 1HF		Year-on-Year	
	Amount	Composition Ratio	Amount	Composition Ratio	Change in Amount	Change In Percentage
Net Sales	10,412	100.0%	6,611	100.0%	△3,801	-36.5%
Gross Profit on Sales	1,878	18.0%	982	14.9%	△896	-47.7%
SG&A Expenses	1,410	13.5%	1,209	18.3%	△200	-14.2%
Operating Income	468	4.5%	△226	-3.4%	△695	n.a
Ordinary Income	468	4.5%	△174	-2.6%	△642	n.a
Interim Net Income	270	2.6%	△97	-1.5%	△368	n.a

Financial Summary for FY12/09 1HF

Summary of Consolidated Balance Sheets

(¥Million)	FY12/08 1HF		FY12/09 1HF		Change in Amount
	Amount	Composition Ratio	Amount	Composition Ratio	
【Assets】					
Total Current Assets	4,291	73.3%	3,973	56.4%	Δ317
Total Noncurrent Assets	1,563	26.7%	3,071	43.6%	1,508
Total Assets	5,854	100.0%	7,049	100%	1,194

Construction of the No. 2 engine test facility, as well as acquisition of property, plant and equipment from merger

(¥Million)	FY12/08 1HF		FY12/09 1HF		Change in Amount
	Amount	Composition Ratio	Amount	Composition Ratio	
【Liabilities, Net Assets】					
Total Current Liabilities	2,924	49.9%	2,505	35.5%	Δ418
Total Noncurrent Liabilities	450	7.7%	1,763	25.0%	1,312
Total Liabilities	3,375	57.6%	4,268	60.6%	893
Shareholders' Equity	2,373	40.6%	2,664	37.8%	291
Capital Stock	479	8.2%	479	6.8%	0
Capital Surplus	590	10.1%	876	12.4%	285
Retained Earnings	1,671	28.6%	1,527	21.7%	Δ144
Treasury Stock	Δ369	-6.3%	Δ218	-3.1%	150
Valuation and Translation Adjustments	Δ1	Δ0.0%	Δ6	-0.1%	Δ5
Subscription Rights to Shares	12	0.2%	38	0.5%	26
Minority Interests	95	1.6%	83	1.2%	Δ11
Total Net Assets	2,479	42.4%	2,780	39.4%	300
Total Liabilities and Net Assets	5,854	100.0%	7,049	100.0%	1,194

Increased negative goodwill due to merger and acquisition of subsidiaries

Increased long-term debt due to construction of No. 2 engine test facility

Increase due to merger

Decrease due to partial share allotment for merger

Financial Summary for FY12/09 1HF



Summary of Consolidated Statements of Cash Flows

(¥Million)	FY6/08 1HF Amount	FY6/09 1HF Amount	Change in Amount
Income Before Income Taxes	552	△511	△1,064
Depreciation	76	91	14
Amortization of Goodwill	23	40	17
Amortization of Negative Goodwill	0	△29	△29
Decrease (increase) in Notes and Accounts Receivable-trade	△26	1,106	1,133
Increase (decrease) in Notes and Accounts Payable-trade	24	△368	△393
Others	△561	△415	145
Net Cash Provided by (used in) Operating Activities	88	△86	△174
Net Cash Provided by (used in) Investing Activities	△148	△321	△173
Increase (decrease) in Loans Payable	107	117	10
Cash Dividends Paid	△58	△72	△14
Others	△13	△25	△169
Net Cash Provided by (used in) Financing Activities	36	20	△15
Cash and Cash Equivalents, End of Term	768	1,052	284

Decrease in notes and accounts receivables due to net sales decline

Decrease due to purchase of stocks of subsidiaries and affiliates

OUTSOURCING Group's Operating Environment



FY12/09 1HF Operating Environment

- As companies completed inventory adjustments to cope with the economic crisis, workforce reductions bottomed out in April



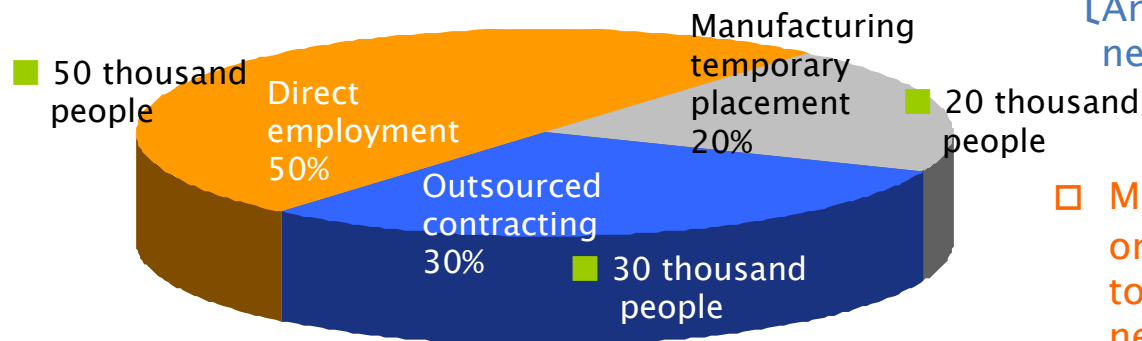
- The production recovery was larger than expected, due primarily to the government's economic stimulus packages

Recovering Industries

- Transportation equipment: Boosted by the economy having bottomed out and from eco-tax rebate
- Electronic components: Demand growing for necessary parts from transportation equipment industry production upswing
- Consumer electronics: Consumer demand growing, spurred by eco-point system and shift to digital TV broadcasting
- Semiconductors: Recovery driven by transportation equipment industry production upswing and turnaround of inventory adjustment

An estimated 100,000 new workers needed to meet production upswing of domestic manufacturers

Personnel Initiatives at Production Startup



[An estimated more 100,000 workers needed to ramp up production]

□ Manufacturers to rely solely on non-permanent employees to meet production ramp-up needs

[1] Makers that opt for direct employment

When stepping up production, half the manufacturers will choose direct employment in order to avoid the PR hit of reemploying temporary placement workers, whose mass firing had previously prompted widespread public criticism; the vast majority of those directly employed, however, will be non-permanent workers

[2] Makers that opt for production outsourced contracting

These companies had identified outsourced contracting as a solution to employment swings and improved productivity even before the recession, or as a means to cope with the 2009 Issue

[3] Makers that opt for manufacturing temporary placement

These manufacturers will endure the PR hit of rehiring temporary placement workers on a short-term basis not only because their production system has structural incompatibility issues with outsourced contracting, but because they face volatile production swings

While our competitors can only respond to the demands of temporary placement, we have developed a business framework capable of meeting all three of the aforementioned needs

[1] Direct employment of makers: Their issues, our advantages

Issues Faced by Manufacturers

- Because manufacturers relied on outsourcing providers to increase workers in times of production upswings, they lack the administrative capability to hire non-permanent employees
- The large influx of new employees will overwhelm the capacity of manufacturers to administer worker dormitories and labor management operations
- The Amended Part-Time Employment Act, which became effective from April 1, 2008, requires employers to inquire after 3 years whether a part-timer carrying out the same tasks and duties as a permanent employee seeks employment as a permanent, full-timer

Our Advantages

- We own ORJ, a subsidiary and joint venture with Relocation Japan Ltd., which offers relocation insurance* that eases the tasks involved in managing worker dorms and related real estate assets, as part of its patented business model
*Insurance that makes unnecessary deposits, security deposits and restoration costs, thereby eliminating virtually all cash transactions
- ORJ is a one-stop provider of a variety of integrated services, ranging from recruitment to administrative operations of newly hired workers; it also provides highly value added real estate services that competing firms cannot offer
- OUTSOURCING can develop production outsourced contracting proposals to improve onsite productivity of a client-manufacturer that ORJ is servicing with an outsourced administration contract

[2] Outsourced contracting: Their issues, our advantages

Issues Faced by Manufacturers

- Manufacturers must comply with the Ministry of Health, Labor and Welfare's Notification No. 37, which clarifies the differences between outsourced contracting and temporary placement
- Temporary worker placement and outsourced contracting require different business models and expertise; only a select number of providers have the necessary business resources for outsourced contracting

Our Advantages

- Our outsourced contracting operation, which creates a stable employment platform, follow the mandates set by Notification No. 37 to the letter, with our proprietary interpretative guidelines of the notification fully approved by regulators
- We offer highly value-added outsourced contracting service proposals to improve productivity to the top-ranking manufacturers of their respective industries
- We have more channels through which to offer outsourced contracting service proposals to clients than our competitors; these include channels to ORJ's clients that are being serviced by its outsourced administration contracts
- We have Group companies with production engineering expertise, serving to further differentiate us from our competitors

[3] Manufacturing temporary placement: Their issues, our advantages

Issues Faced by Manufacturers

- Rehiring temporary workers in a short period of time after their mass firing will engender a major public backlash
- Manufacturers cannot hire the same temp workers for more than 3 years
- Prohibition of manufacturing temporary placement is a risk with the election of a new administration
- Manufacturers must choose outsourcing providers wisely, given that barriers to entry in the business are low and the resulting competitive frenzy will lead to the deterioration of compliance quality

Our Advantages

- We provide a socially meaningful service in which risks over uncertain employment length are offset by better wages
- We possess the expertise to convert manufacturing temporary placement contract sites into outsourced contracting sites

OUTSOURCING Group's Earnings Forecast
for the Second Half of Fiscal Year
Ending December 31, 2009



OUTSOURCING Group's Earnings Forecast for FY12/09 2HF

Production Outsourcing Business September–December Order Status*

* For OUTSOURCING, ENABLE, MOLTI., Ltd., Yasumoto Ltd., DAISEI ENGINEERING Co., Ltd., and OUTSOURCING CENTRAL CO., LTD.

Industry	Sep.	Oct.	Nov.	Dec.
Transport equipment	4 companies	7 companies	8 companies	5 companies
Electronics	5 companies	5 companies	4 companies	5 companies
Chemicals and Pharmaceuticals	3 companies	4 companies	3 companies	3 companies
Metals	1 company	2 companies	1 company	0 companies
Foods	3 companies	6 companies	5 companies	2 companies
Other	1 company	5 companies	7 companies	5 companies
Total	17 companies 1,500–worker lot	29 companies 2,500–worker lot	28 companies 2,500–worker lot	20 companies 2,000–worker lot

2HF Outlook for Production Outsourcing Business

(¥Million)

		3Q	4Q	2HF total
Production outsourcing business	Net Sales	4,500	9,600	14,100
	Operating Income	0	898	898

* A one-time ¥130 million expense incurred from M&A in 3Q

*A one-time expense from M&A was incurred in 3Q

- OUTSOURCING CENTRAL, which became a subsidiary in June, will post a deficit of ¥120 million due to the low occupancy rate of company dormitories with long-term rental leases (occupancy rate is improving dramatically after the company became a Group member)



Spurred by the automotive industry's recovery, order inflows have increased; earnings will turn positive in September and projected to jump from October onwards

- A one-time expense of some ¥10 million will occur in the 3Q from the acquisition of 2 medical companies as subsidiaries in August, and from the transfer of a business unit; the unit and new subsidiaries, however, are likely to contribute to earnings from the 4Q

2HF Outlook for ORJ's Outsourced Administration Contract Order Status

Prospects for outsourced administration contracting	Estimated number of workers	Estimated time of initiation
Company A Group Manufacturer of photocopiers and peripheral components	Approx. 1,000 workers	<ul style="list-style-type: none"> • To begin from July in Kansai area factories • Expecting contract for 6 factories nationwide from September
Company B Manufacturer of automotive components	Approx. 200 workers	<ul style="list-style-type: none"> • Servicing Yokohama Plant since April • Service to start at Nagano prefecture factory from October
Company C Manufacturer of automotive components	Approx. 500 workers	<ul style="list-style-type: none"> • Service to start sequentially for 5 factories nationwide from October • “Turnkey” contract for services ranging from recruitment of workers to use of our Group dormitories
Company D Manufacturer of automotive components	Approx. 200 workers	<ul style="list-style-type: none"> • Service to start at 4 factories nationwide from October →Conversion to outsourced contracting service planned in near future
Company E Electronic device manufacturer	Approx. 500 workers	<ul style="list-style-type: none"> • Service to start at factories in Kansai and Hokuriku areas in October

Projected ORJ Administration Contracts for September–December

	As of end of September	As of end of October	As of end of November	As of end of December
End-of-Month Status of Outsourced Administration Contracts	16 companies 2,500 workers	29 companies 10,000 workers	40 companies 12,000 workers	51 companies 15,000 workers

ORJ Quarterly Earnings Forecast for 2H

(¥ Million)

		3Q	4Q	2HF total
Outsourced administration contracting business	Net Sales	238	1,930	2,168
	Operating Income	46	565	611

With the economy recovering, ORJ's per capita administration fee is expected to rise for recruitment activities as industries, particularly the transportation equipment industry, scramble to cope with an upswing in production

Estimated per capita administration fee: ¥50,000/month

OUTSOURCING Group's Earnings Forecast for FY12/09 2HF



Consolidated Earnings Forecast for FY12/09 2HF

(¥Million)

		3Q	4Q	2HF total
Outsourcing business	Net Sales	4,500	9,600	14,100
	Operating Income	0	898	898
Outsourced administration contracting business	Net Sales	238	1,930	2,168
	Operating Income	46	565	611
Other	Net Sales	102	203	305
	Operating Income	4	14	18
Total	Net Sales	4,840	11,733	16,573
	Operating Income	50	1,477	1,527

Summary of Consolidated Earnings Forecast for FY12/09

Consolidated (¥Million)	FY12/08	FY12/09 1HF	FY12/09		
	Actual	Actual	Forecast	Amount	Change in Percentage
Net Sales	24,148	7,733	24,300	151	0.6%
Operating Income	1,113	△374	1,150	36	3.3%
Ordinary Income	1,134	△306	1,200	65	5.7%
Interim Net Income	641	△401	670	28	4.5%

Upgraded Strategy to Survive Industry Shakeout



M&A strategies

Underlying flaws of outsourcing providers unable to survive in the production outsourcing business

- They lack the business resources to provide both outsourced contracting and direct employment service needs of manufacturers which, at the time production must be stepped up, become a major personnel issue
- Their earnings growth do not correspond with an economic recovery

Underlying flaws of outsourcing providers unable to survive in the engineering outsourcing business

- They fail to fully utilize their engineers when manufacturers tighten R&D budgets
- They lose business through increased turnover of capable engineers who refuse to remain on standby status for prolonged periods

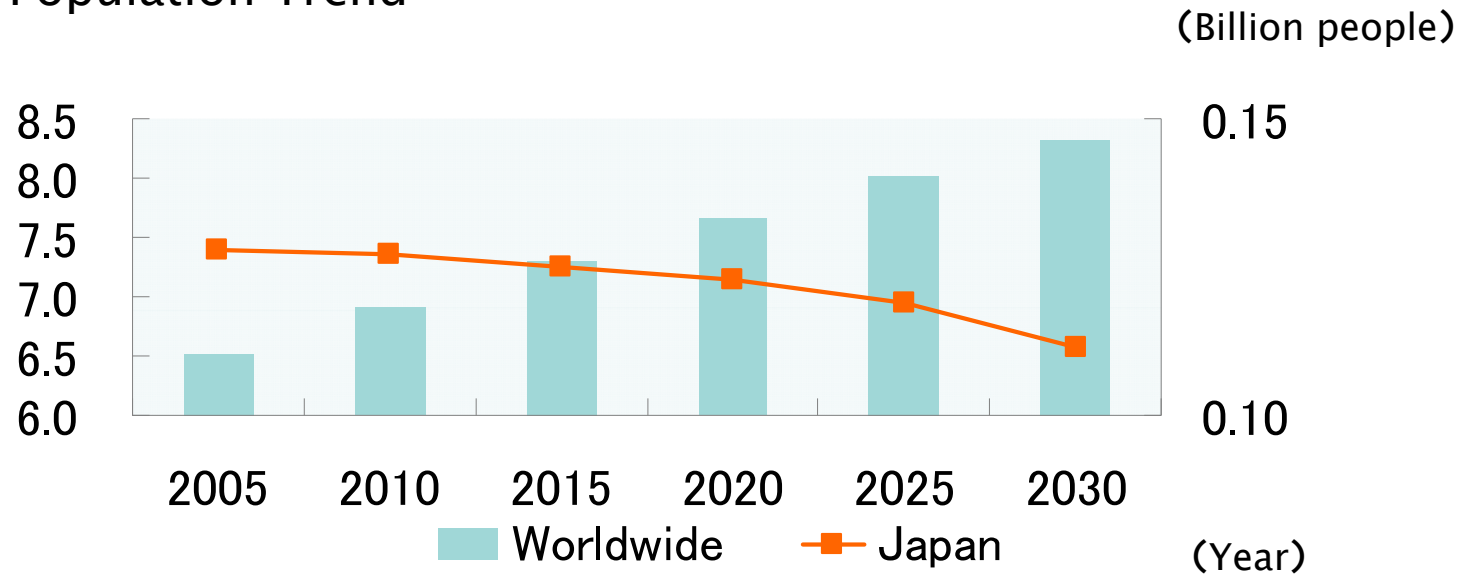
We will look to merge with and acquire providers with the business resources, including blue-chip client accounts and advanced specialized expertise, and, through its synergy with us, the capacity to quickly recover earnings

* On August 14, we acquired from AIXEX alpha Co., Ltd. (which filed for bankruptcy protection) its engineering temporary placement division, RPM Co., Ltd., and Try Angle Co., Ltd., which specializes in pharmaceutical field

Reference 1.
Overseas Strategy
to Meet Mid- to Long-Term Trends



Global Population Trend



[Outlook for Japan's Production Outsourcing Market]

The production outsourcing market will stagnate as consumption contracts as a consequence of Japan's declining birthrate and population contraction

[Outlook for Overseas Production Outsourcing Market]

The production outsourcing market will expand as the population increases in the developing countries

Move into overseas markets in partnership with our affiliate TECHNOSMILE, INC.

- Led by Japanese automakers, manufacturers will face an insurmountable shortage of engineers when starting up locally launched factories that are built to develop the markets of developing countries



- In consultations with TECHNOSMILE, we invite workers from countries targeted for Japanese factories to Japan as engineering trainees



- Once trained, these engineers return to help in factory startups

We accept some 1,000 trainees annually

Move into overseas markets in partnership with our affiliate TECHNOSMILE, INC.

Out-Sourcing! inc.

- Integrate business resources, including our overseas sales expertise based on our track record and experience in Japan, with our labor management capability



Uniting of management resources



TECHNOSMILE, INC.

- Train and deploy skilled workers and engineers from China, Vietnam and other developing countries
- Secure highly skilled staff with TOYOTA work experience who have mastered JIT and TPS

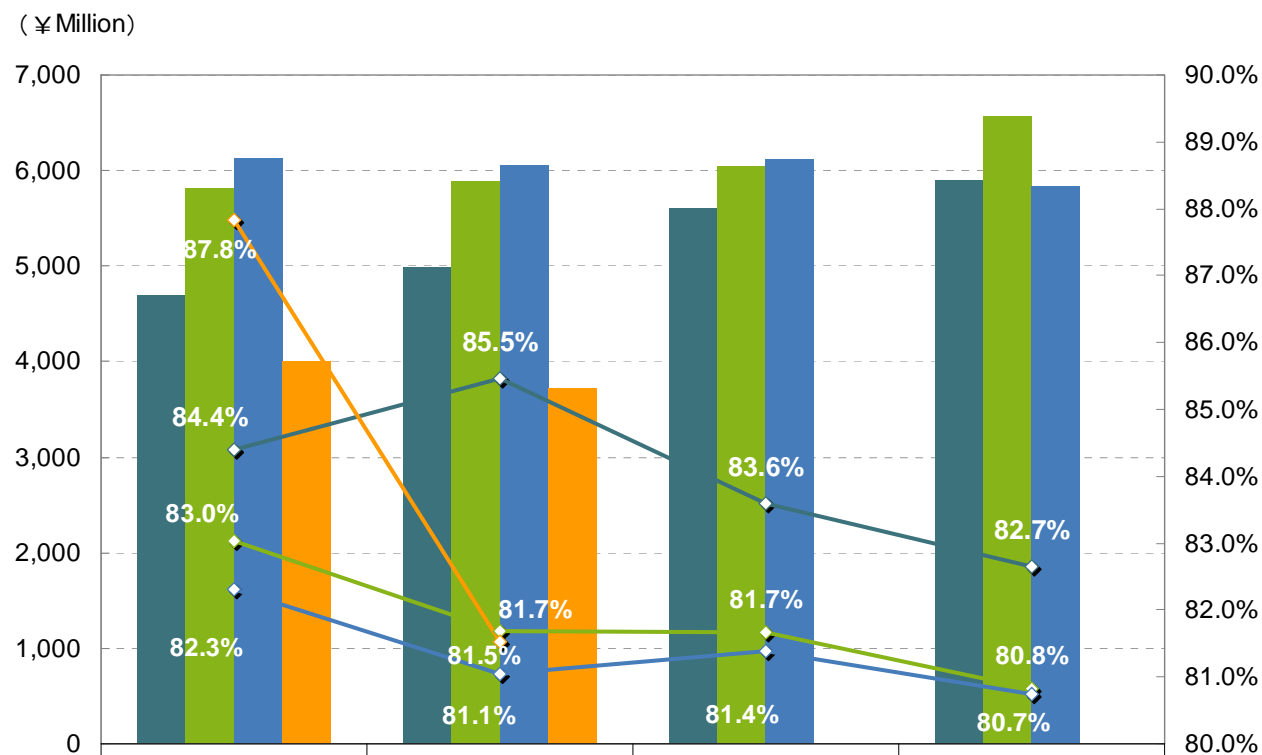
◎ Increase the number of employees who are dispatched overseas as engineers each year to 3,000

We are the only outsourcing provider in Japan that can earn foreign currency abroad, where the population continues to grow

Reference 2. Supplementary Data for Financial Results

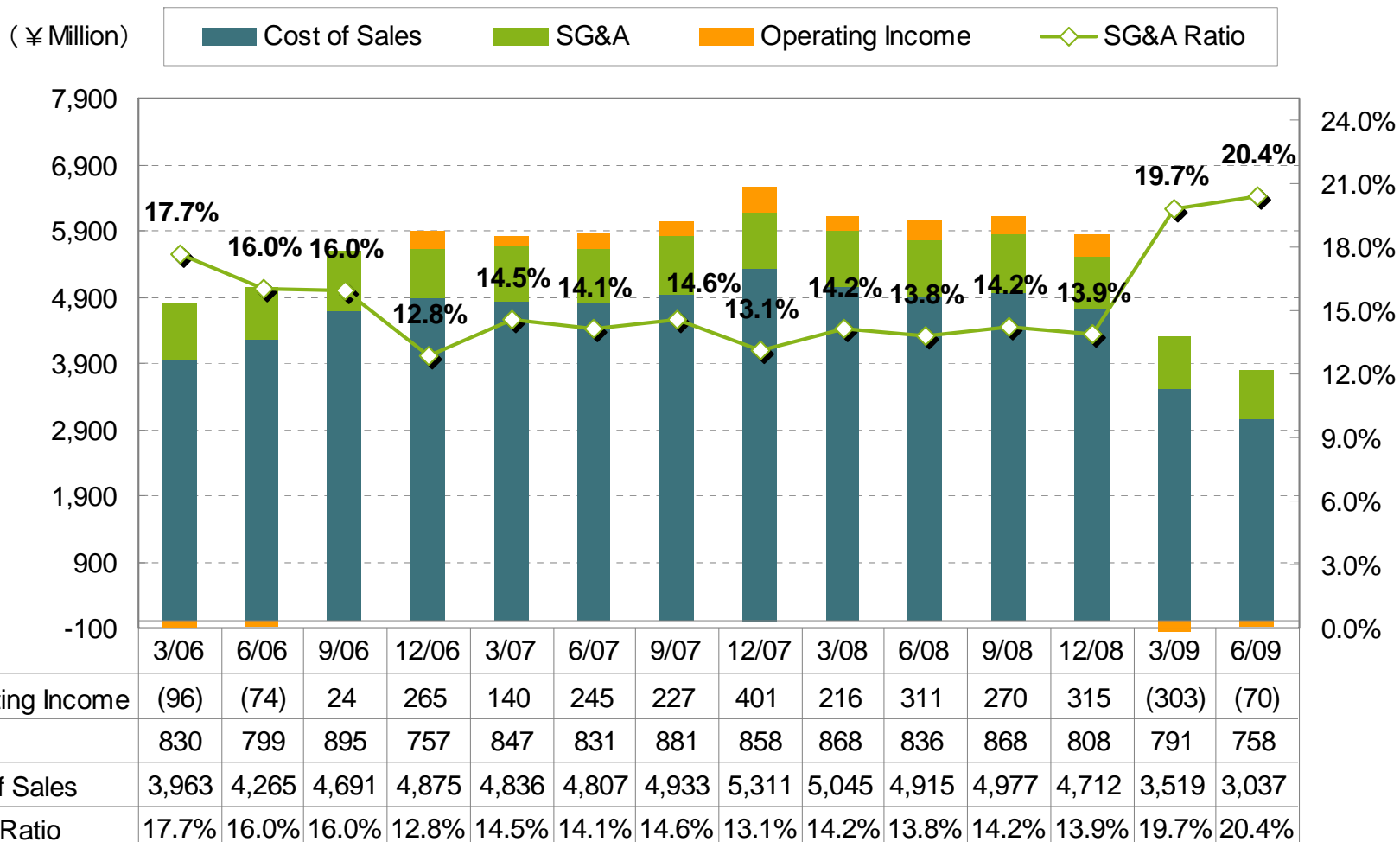


Quarterly Changes in Net Sales and Sales Cost Ratio (Consolidated)

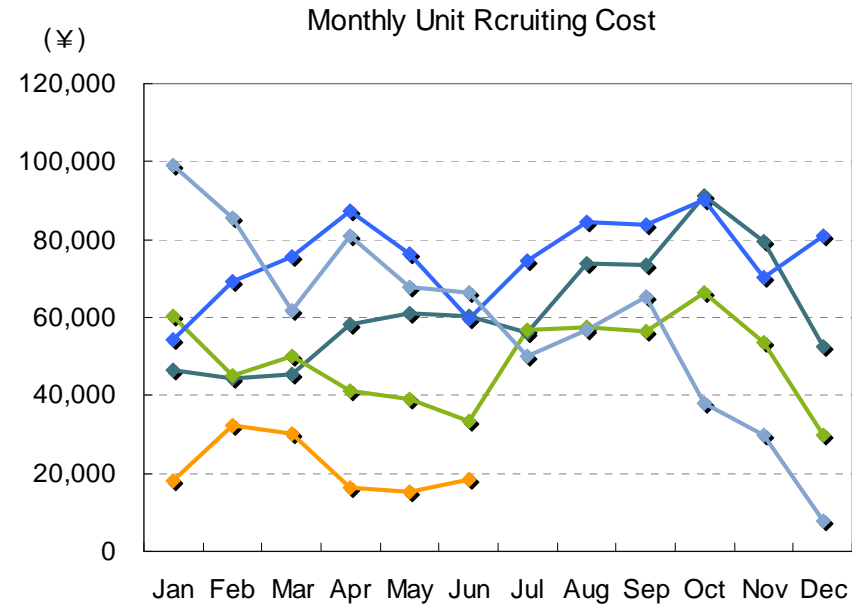
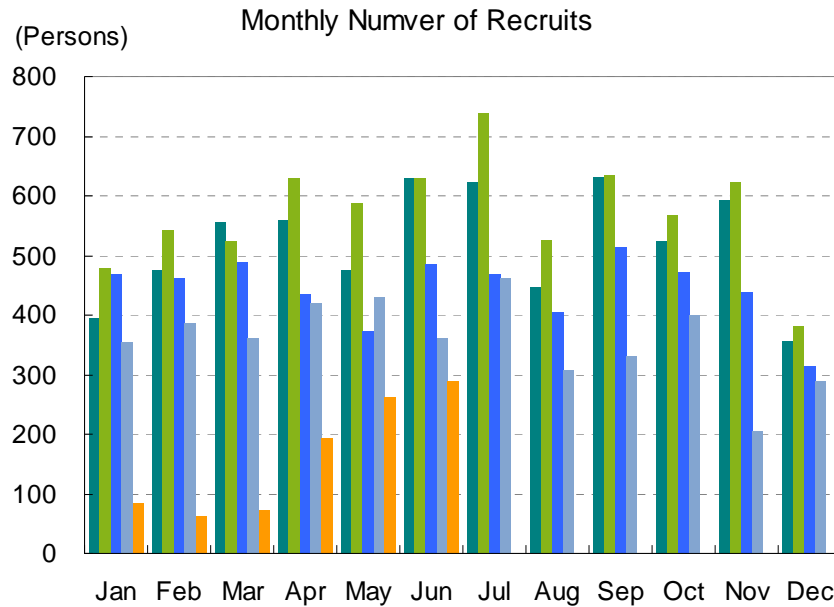


Net Sales (FY12/06)	4,696	4,990	5,611	5,898
Net Sales (FY12/07)	5,824	5,884	6,041	6,571
Net Sales (FY12/08)	6,130	6,064	6,116	5,836
Net Sales (FY12/09)	4,007	3,725		
Sales Cost Ratio (FY12/06)	84.4%	85.5%	83.6%	82.7%
Sales Cost Ratio (FY12/07)	83.0%	81.7%	81.7%	80.8%
Sales Cost Ratio (FY12/08)	82.3%	81.1%	81.4%	80.7%
Sales Cost Ratio (FY12/09)	87.8%	81.5%		

Quarterly Changes in SG&A Expenses and Operating Income (Consolidated)

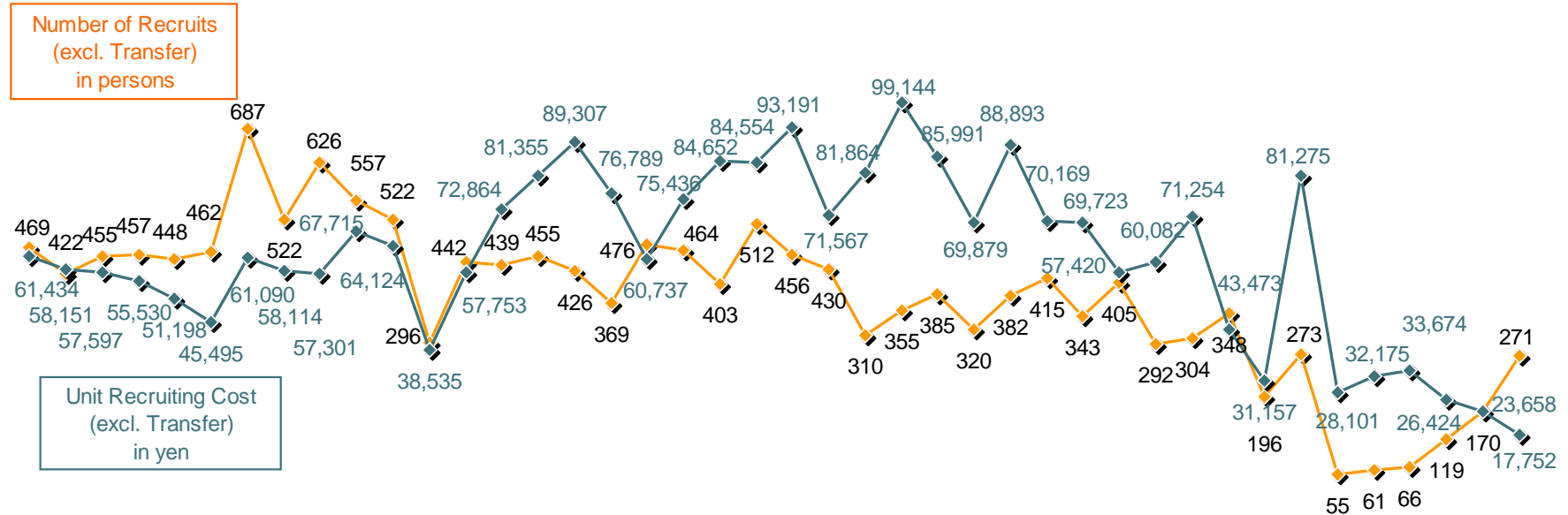


Monthly Changes in Recruiting Cost per Head (Consolidated)

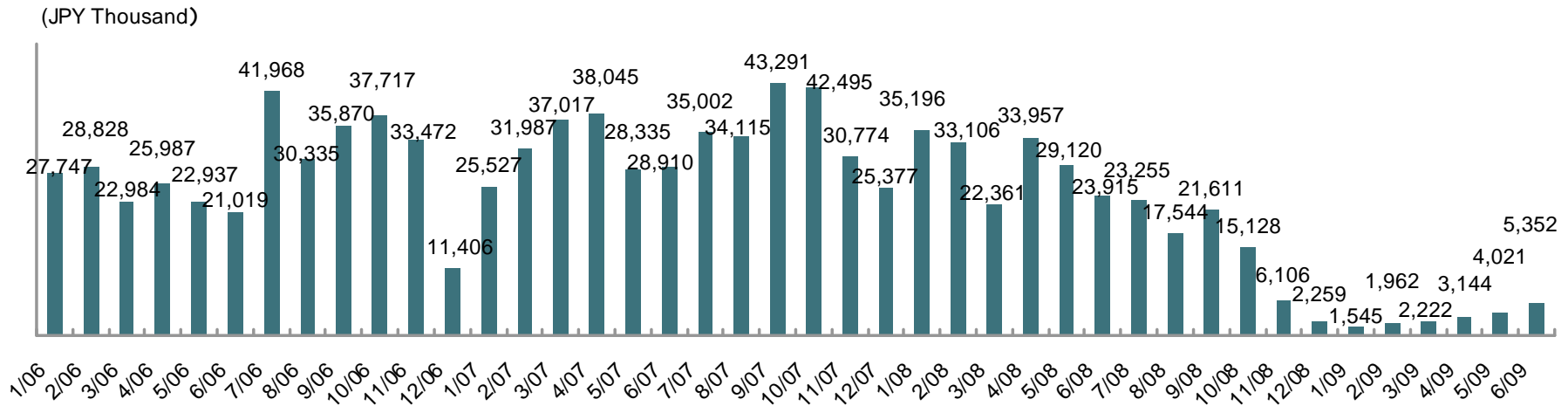


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
No. of Recruits in 2005	396	476	556	558	477	629	622	446	632	523	594	356
No. of Recruits (incl. Transfer) in 2006	478	543	525	629	588	630	737	526	635	568	624	381
No. of Recruits (incl. Transfer) in 2007	470	462	489	435	372	486	469	404	516	472	438	314
No. of Recruits (incl. Transfer) in 2008	355	387	362	420	430	361	463	308	331	399	205	290
No. of Recruits (incl. Transfer) in 2009	85	61	74	193	261	290	452	n.a	n.a	n.a	n.a	n.a
Unit Recruiting Cost in 2005	46,511	44,333	45,518	58,054	61,163	60,246	56,180	73,906	73,404	91,198	79,354	52,576
Unit Recruiting Cost (incl. Transfer) in 2006	60,278	45,193	49,917	41,316	39,008	33,363	56,946	57,672	56,489	66,403	53,642	29,938
Unit Recruiting Cost (incl. Transfer) in 2007	54,313	69,236	75,699	87,460	76,169	59,487	74,631	84,442	83,899	90,032	70,259	80,819
Unit Recruiting Cost (incl. Transfer) in 2008	99,144	85,546	61,772	80,850	67,721	66,247	50,227	56,961	65,441	37,917	29,789	7,790
Unit Recruiting Cost (incl. Transfer) in 2009	18,183	32,175	30,034	16,292	15,410	18,458	12,850	n.a	n.a	n.a	n.a	n.a

Monthly Changes in General Applicants Recruitment



Monthly Recruiting Expenses



Quarterly Changes in the Number of Contract Workers



※ Contract workers are those working at clients' manufacturers' worksites, which includes currently active temporally placed workers.

A cautionary note on forward-looking statements:

This material contains forward-looking statements about the Company's future plans and forecasts, which are based on the Company's assumptions and beliefs judged from the information currently available and are subject to a number of risks and uncertainties. This may cause actual results differ materially from those projected

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