

Trias Company Memo December 9, 2008



Out-Sourcing! (2427 JASDAQ) Out-Sourcing Inc.

Summary of Business Results Meeting for the 3rd Quarter of the Fiscal Year ending December 31, 2009

On November 28th, Out-Sourcing Inc. (hereinafter “Out-Sourcing”) held a results meeting for the 3rd quarter of the fiscal year ending December 31, 2008 at the Securities Analysts Association of Japan (SAAJ), and the following is the meeting summary.

Attendees to the results meeting: Mr. Haruhiko Doi, CEO, and Mr. Kazuhiko Suzuki, Managing Director

Business Results Summary and Downwardly-Revised Business Forecast (presented by Mr. Doi, CEO)

The on-going financial crisis that has had a negative impact on the macro economy has also put huge pressure on the workforce outsourcing industry. As for Out-Sourcing, the production volumes at major clients’ manufacturing sites decreased by approx. 25% compared with May this year, the peak of this cycle, while some auto manufacturers cut back their production by 70%. Unlike other temporary staffing contracts which earn money during the contract period, Out-Sourcing’s major service of outsourced contracting business, which accounts for 70% of sales, is paid depending on the production volume, and so the company has been directly affected by the production cutbacks made by the client manufacturers. In an ordinary year the 2nd half is seasonally strong with demand being 20% higher than in the first half. However this year, production volumes have declined sharply since September, and Out-Sourcing struggled to even achieve the sales level of the 1st half.

Considering the sharper than expected production cutback since September, the company announced the downwardly-revised business forecast on November 14th. Subsequently the sales and operating income were revised down to JPY 24.3 bn, -13% versus the previous forecast, and JPY 1.1 bn, - 27.2% versus the old forecast, respectively.

【Industry Trends】

The 2009 Issue is , in which major contracts for worker dispatching at manufacturing sites will

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confront 3-year deadlines, the possible solutions are; ①manufacturers to hire the dispatched workers directly, or ②manufacturers to shift to outsourced contracting compliant with the regulations. Direct employment, however, is likely difficult as the current supply chain system, which causes sharp fluctuations in the production cycle, requires flexible production without holding inventories. Essential needs of client manufacturers are outsourced contracting, while they are forced to choose direct employment as quite a few outsourcers can deliver the outsourced contracting services compliant with the regulations, including the Guideline. The number of workers in the manufacturing outsourcing industry is estimated as approx. 1.4 million. Out-Sourcing expects for the number of workers to decrease by 0.4 million due to sharp production cutbacks. In addition a further 0.5 million decrease due to a shift towards direct employment. As a result the company forecasts the number of workers to shrink to the half million level in the future. This sharp market shrinkage will likely cause a very severe situation amongst outsourcers so the company plans to selectively target areas that offer business growth opportunities for the survivors.

【Launch of ORJ Inc.】

Responding to the trend of direct employment by manufacturers, Out-Sourcing Inc. and RELOCATION JAPAN LIMITED (hereinafter RELOCATION JAPAN) established a joint company of ORJ Inc. (hereinafter ORJ) on October 27th (90% equity holding by Out-Sourcing inc. and 10% by RELOCATION JAPAN respectively). A broad range of procedures and handlings to occur when manufacturers hire large number of dispatched workers directly are too complicated and troublesome for their administration divisions, which have been streamlined since the bursting of bubble. With Out-Sourcing's know-how on labor administration and RELOCATION JAPAN's know-how on company house management, ORJ will take care of a wide-range of administrative operations, including renting dorms, transportation of employees, labor and personnel administration, on an outsourced contracting basis. The operating income margin is expected to be around 30%. ORJ is expected to lead the administration outsourced contacting business to the outsourced contracting business at manufacturing sites in the future. The company has already received several inquiries from manufacturers, and they expect the number of workers under their administration outsourced contracting scheme to be 10,000 persons in March 2009 and 30,000 persons by September 2009 respectively. For the potential client manufacturers as in September 2009 Out-Sourcing has already started the marketing on their "outsourced contracting that integrates improved business results with the pursuit of added individual value and compensation upgrades for workers".

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【Merger of Free Work Co., Ltd. (2486 Hercules)】

Out-Sourcing announced they will acquire Free Work Co., Ltd. (hereinafter Free Work) as of March 1, 2009. In order to shift the manufacturing sites with administration outsourced contracting to manufacturing outsourced contracting an expansion of business size based on a rigid framework should be inevitable. The acquisition will likely lead to a reduction in SG&A expenses through integrating sales offices and improving efficiency in recruitment, as there is no duplication of client manufacturers with Free Work. Mr. Doi, the current CEO of Out-Sourcing, will be the chairman and representative director, and Mr. Yota Maruoka, the current executive director of Free Work, will be the president of the new company.

【Q & A】

Q. According to the President of NISSO CORPORATION, one of major manufacturing outsourcing companies (unlisted), in the Nikkei Newspaper, they estimate 2/3 of their worker dispatching contracts will shift into the direct employment by client manufacturers. In case of Out-Sourcing which portion is expected to move to the direct employment by client manufacturers?

A. It depends on the industries to which client manufacturers belong. On average 1/3 of our business is likely to move to the direct employment. In response to the cooling-off period, which is needed when an expiring worker dispatching contract is renewed, some client manufacturers may adopt the direct employment method. The 2/3 portion of NISSO, therefore, may include such transitional direct employment.

Q. Under the circumstances where client manufacturers curtail output will they also lower wages?

A. Currently they are not lowering wages. Rather we're facing the cancellation of worker dispatching contracts instead.

Q. Previously you explained that the leading manufacturing outsourcing companies would not be affected by economic downturn, as businesses are able to concentrate on leading companies which can accept outsourced contracting contracts compliant with the regulations. What is your view on the on-going severe business environment for your company?

A. The current environment is quite tough with a larger than expected plunge, however, we expect the bottom of business momentum to be in December. Next spring and afterwards, there are projects for remodeling from auto manufacturers, for example, and our business is

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likely to recover gradually.

Q. Under the current tough business environment, you should control SG&A expenses. What is your outlook on any reduction in SG&A expenses?

A. The labor costs are the major portion of SG&A expenses. We're now accepting orders for our new company ORJ and more number of staff will be needed. We plan to allocate staff to the new company which will result in controlling our group SG&A expenses. We expect to control SG&A expenses in terms of recruitment costs also.

Q. What is your plan on M&A?

A. We are now considering several M&As in addition to Free Work, i.e. one acquisition of business size around JPY 15 bn, and two acquisitions of business with a size of about JPY 10 bn and one acquisition of a business size of JPY 7 bn. Possible acquisitions should fulfill the conditions that total amortization of goodwill will not exceed our net annual income and any business alliances resulting from these potential acquisitions should have business advantages for us.

END

Company Profile for Out-Sourcing Inc.

Headquarters Shizuoka-City, Shizuoka Prefecture

Founded January 1997

Consolidated Business Results

(FY 12/07 actual) Sales JPY 24,321 mn Operating Income JPY 1,013 mn Net Income JPY 538 mn

(FY 12/08 forecast) Sales JPY 24,350 mn Operating Income JPY 1,100 mn Net Income JPY 592 mn

Number of employees (as of June 30, 2008) Consolidated 7,481 Non-consolidated 6,648

Stock Price (Dec. 8, 2008 market close) JPY 10,520

PER (FY 12/08 forecast) 2.11 times

PBR (FY 12/07 actual) 0.53 times

Dividend Payout Ratio (FY 12/07 actual) 10 %

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