Trias Company Memo 10-September-9

(Securities Code: 2427/ JASDAQ) OUTSOURCING Inc.
Summary of Q2 FY12/10 Business Results Meeting and Follow-Up Interview

On August 5, 2010, OUTSOURCING Inc. (hereinafter OSI or the Company) held its Q2 FY12/10 Business Results Meeting. The following is a summary of the Meeting and a follow-up interview with CEO Yohta Maruoka and Kazuhiko Suzuki, Managing Director & Management Planning Section Chief.

[Q2 FY12/10 Consolidated Business Results Summary and FY12/10 Earnings Forecast]

As seen in Table 1, consolidated net sales for Q2 FY12/10 grew by ¥2,832 million on a year-on-year basis, while operating income increased ¥198 million y/y. Compared to OSI's February 10, 2010 forecast, net sales increased by ¥330 million and operating income declined by ¥206 million.

A breakdown by business segment versus forecast shows that net sales of the Company's Production Outsourcing (PO) business increased by ¥385 million, while operating income fell short of its target by ¥98 million. As for its Administration Operations Outsourcing (AOO) business, net sales and operating income did not meet their respective forecasted figures by ¥45 million and ¥106 million.

【Table 1】*

Q'ly Performances (¥ million)	FY12/09				FY12/10		Q2 Year-on-Year chan		Forecast Feb-10
By Segment	Q1	Q2	Q3	Q4	Q1	Q2	Amount	Ratio	Q2
Net Sales	4,007	3,725	4,397	5,832	6,282	6,557	2,832	76.0%	6,227
PO	3,908	3,548	4,174	5,569	6,020	6,245	2,697	76.0%	5,860
AOO	0	36	54	92	80	161	125	347.2%	206
Others (incl. Nursing)	0	140	168	170	168	149	9	6.4%	160
Gross Profit	487	687	877	1,332	1,282	1,262	575	83.7%	n.a.
SG&A	791	758	826	1,159	1,154	1,134	376	49.6%	n.a.
Operating Income	△ 303	△ 70	51	172	128	128	198	-282.9%	334
PO	△ 300	△ 89	11	160	112	94	183	-205.6%	192
AOO	0	15	16	3	9	36	21	140.0%	142
Others (incl. Nursing)	14	19	27	27	33	22	3	15.8%	20
Eliminations	△ 17	△ 17	△ 4	△ 20	△ 26	△ 26	△ 9	52.9%	△ 20
Margin	*-7.6%*	*-1.9%*	*1.2%*	*2.9%*	*2.0%*	*2.0%*			*5.4%*
Ordinary Income	△ 274	△ 32	90	238	207	379	411	n.a.	n.a.
Net Income	△ 190	△ 211	43	△ 151	111	162	373	n.a.	n.a.
	0	0	0	0	0	0			
#Worksite Employees	4,824	4,559	5,030	6,109	6,223	6,192	1,633	35.8%	6,150

*NOTE: Prepared by Trias Corp. with data disclosed by OUTSOURCING Inc.

The reason for the improved performance in PO net sales versus the forecast was due to an order recovery from the transport equipment and electronics industries. In contrast, the performance decline in PO operating income was due to an unexpected increase in worksite employees, a trend that has carried over from Q1. Frontloaded expenses to cover the costs of recruitment and worker dormitory arrangements also increased. In addition, given the order recovery and the Company's commitment to reinforce its position in the outsourcing industry, OSI hired additional marketing sales personnel

as well as worksite supervisors. It also moved to fortify its sales and recruitment capabilities.
The Company believes its sales and recruitment infrastructure will play an increasingly crucial role to ensure its competitive superiority in the production outsourcing market.

In order to dominate in this market, it requires a sales and recruitment infrastructure with the capacity to manage more than 10,000 worksite employees. Thus, OSI is not only creating a more efficient operating framework, but also aims to broaden its network of local offices and expand its workforce. The Company's Outsourced Administrative Operations (OAO) unit is structured around the following major business models: paid placement services, an agency to hire contract workers, and other outsourced administrative services. While the number of contract workers recruited by the agency was originally projected to reach 350 in Q1, the actual figure—90 workers—was far below that. The reason being that many client-manufacturers hired more workers locally instead of through the Company's recruitment agency service, which meant less business was generated, especially with regards to dormitory management. From Q2, however, business picked up as client-makers sought to hire workers from outside the prefectures they are based. Demand for OSI's administrative services after workers have been recruited, including dorm management, grew, and the number of contracted workers climbed to 400 (versus the projected 459). Nevertheless, net sales and operating income fell short of their respective forecast targets.

The reason for the shortfall was due to the lower-than-projected numbers for recruited workers and demand for follow-on administrative services in Q1, which, in turn, adversely impacted the business base in the beginning of Q2.

As for the changes since Q1 in terms of OSI's consolidated balance sheet, trade receivables increased as a result of growing business volume, as had loan debt created by the need for temporary working capital. Among the major changes for consolidated cash flows in Q1 was an increase in unpaid wages.

The Company has not revised its initial full-year forecast announced on February 10, 2010. (See the financial data on Page 5 for details) As with Q1, OSI's quarterly forecast by business segment, which was also announced on February 10, remains on track. As seen in Table 2, the number of worksite employees is expected to post a marked improvement from Q3, reflecting a near-term recovery trend, and has thus been revised upward. The upward revision takes into account an outsourced contracting project to produce large LCD panels and covers in principle some 300 workers contracted as of the end of October (140 workers have actually been contracted as of June's end). It also includes another project handled by the Company's OAO unit in which the production processes operated by some 280 seasonal workers at a client-manufacturer who are being administered by ORJ, will be converted to an outsourced contracting service at the end of this fiscal year.

Among those projects earmarked for outsourced contracting conversion as the Company heads toward the next fiscal year are: 1) some 200 temporarily placed workers at a maker of air conditioning units between April and June of 2011; 2) production of hot-water boilers this winter; and 3) year-round production of kitchen cabinetry components.

【Table 2】*

Q'ly Performances (¥ million)	Forecasts as of Feb. 10, 2010 FY12/10				
By Segment	Q1	Q2	Q3	Q4	Fullyear
Net Sales	6,091	6,227	6,685	7,029	26,033
PO	5,822	5,860	6,177	6,499	24,360
AOO	109	206	347	370	1,033
Others (incl. Nursing)	160	160	160	160	640
Operating Income	191	334	495	586	1,607
PO	134	192	234	312	874
AOO	55	142	261	273	733
Others (incl. Nursing)	20	20	20	20	80
Eliminations	△ 20	△ 20	△ 20	△ 20	△ 80
Margin	*3.1%*	*5.4%*	*7.4%*	*8.3%*	*6.2%*
Worksite Employee #	6,100	6,150	6,400	6,700	--

*NOTE: Prepared by Trias Corp. with data disclosed by OUTSOURCING In

[Infrastructural changes to improve integrated contracting services]

Following the intense bout of M&A activity of the previous fiscal year, OSI today has expanded to 17 Group companies. Since Q2, however, the Company has moved to consolidate its core business, lay the groundwork to facilitate business in strategic areas and instituted other infrastructural improvements. It has paid particular attention on creating a framework to handle integrated contracts that cater to a broad segment of client needs, from outsourced secondary research and development up to volume production processes under a one-stop service, in three key strategic business areas: transport equipment; electrical and electronics devices (primarily semiconductors); as well as pharmaceutical and chemicals. Hence, OSI is engaged in maximizing its four consolidated companies—SEISHOW CO., LTD., ELZEX CO., LTD., Try Angle Co., Ltd. and RPM Co., Ltd.—in order to place engineers in R&D roles or provide outsourced services that the Company had unable to meet in the past.

On July 1, 2010, the Company's Transportation Equipment Group merged its three consolidated subsidiaries—OUTSOURCING CENTRAL Inc., ENABLE Inc., and Yasutomo Ltd.—into OUTSOURCING CENTRAL Inc. The move allowed OSI to a broad operating domain, from product design and development to prototype testing and evaluation, as well as small-lot and volume production. Because OUTSOURCING CENTRAL now possesses ENABLE's engine bench testing capabilities—which was originally set up to meet the needs of the Toyota Group and its affiliates—the newly merged company is in the process of expanding its service reach to other automakers and their affiliates. OSI, meanwhile, is also reinforcing its services to accept and train foreign workers based on the consulting infrastructure of TECHNO SMILE, INC., a Group affiliate. Moreover, SEISHOW had strong ties to clients affiliated with Nissan Motor Corporation, servicing their development processes for transportation equipment with temporarily placed engineers. Through its collaboration with OUTSOURCING CENTRAL, the Company is expanding its reach to other automakers and their affiliates, including auto parts manufacturers—and thus establish the infrastructure to provide integrated service contracts.

In the Electrical and Electronics Group unit, SEISHOW has also enjoyed a fruitful relationship with Sony-affiliated clients in the home electronics and semiconductor industries, as well as with the major manufacturers of photolithographic systems in the Semiconductor Production Equipment (SPE) industry. Meanwhile, ELZEX subsidiaries ASTRON, INC. and REVSONIC-ES CO., LTD. cater to chipmakers by providing contracted product development services for failure analysis and wafer test systems. OSI is aiming to leverage the business infrastructures of its Group companies to emerge as a major presence in the design and development, test production and volume production processes for the semiconductor and SPE industries (including outsourced equipment installation services for the latter). In order to establish the infrastructure that can provide integrated outsourced contracting services, starting from upstream in the product development process to downstream in the production process, the Company will begin dedicating the full might of its resources to launch the infrastructure from the second half of this year—and acquire new clients and expand order volume from FY12/11.

Lastly, the Pharmaceutical and Chemicals Group unit deals with extended periods of product development (up to ten years in many instances), starting with the research stage followed by development and ultimately volume production stages. The development stage in particular requires a period of clinical trials in order for the manufacturer to obtain regulatory approval under the Pharmaceutical Affairs Act. This clinical trial stage consists of three phases, and offers opportunities for several types of outsourced services such as Contract Research Organization (CRO) support in the clinical trial phase or Clinical Research Associate (CRA) support in the monitoring phase. Through consolidated subsidiaries Try Angle and RPM, OSI aims to provide CRO and CRA support services that target the clinical testing stage for clients, in addition to offering clinical technician placement and outsourced development services. The Company launched its first center for contract research in July for this reason and officially started its contractual relationship with a clinic, which will serve as a clinical testing site, from September. OSI's goal is to nurture the business to the 10 billion yen-level as quickly as possible by expanding its outsourced facilities.

A key factor for the Company to build a successful infrastructure to provide integrated outsourced contracting services is its pool of technical professionals. As of the end of Q2, the OSI Group employed 1,150 engineers and technicians (including production engineering experts), while maintaining a utility rate of 95%. That pool is expected to increase to 1,500 by the end of FY12/10. The biggest challenge from now will be in developing a viable framework to convert technical professionals on a temporary placement contract format—which represents the mainstream service today—to an integrated outsourced contracting service format over time. OSI believes that such a framework will prove instrumental in ensuring its competitive advantage in the production outsourcing provider industry in the years to come.

【Reference】OUTSOURCING Inc. (Securities Code: 2427)

Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)		
No. of Shares Issued	Dec. 09	155,443
No. of Treasury Stock	Dec. 09	11,395
Market Value (￥million)	Sept. 8, 2010	4,477
BPS (￥)	Dec. 09	19,180.1
ROE (%) ※1	Dec. 09	△ 8.0
ROA (%) ※2	Dec. 09	-278.9%
PER (times)	FY12/10 fcst.	4.0
PCFR(times) ※3	Dec. 09	△ 1,119.2
PBR (times)	Dec. 09	1.5
Share Price (￥)	Sept. 8, 2010	28,800
Unit Share (shares)	Dec. 09	1
Average Daily Volume (shares) ※4	Sept. 8, 2010	755

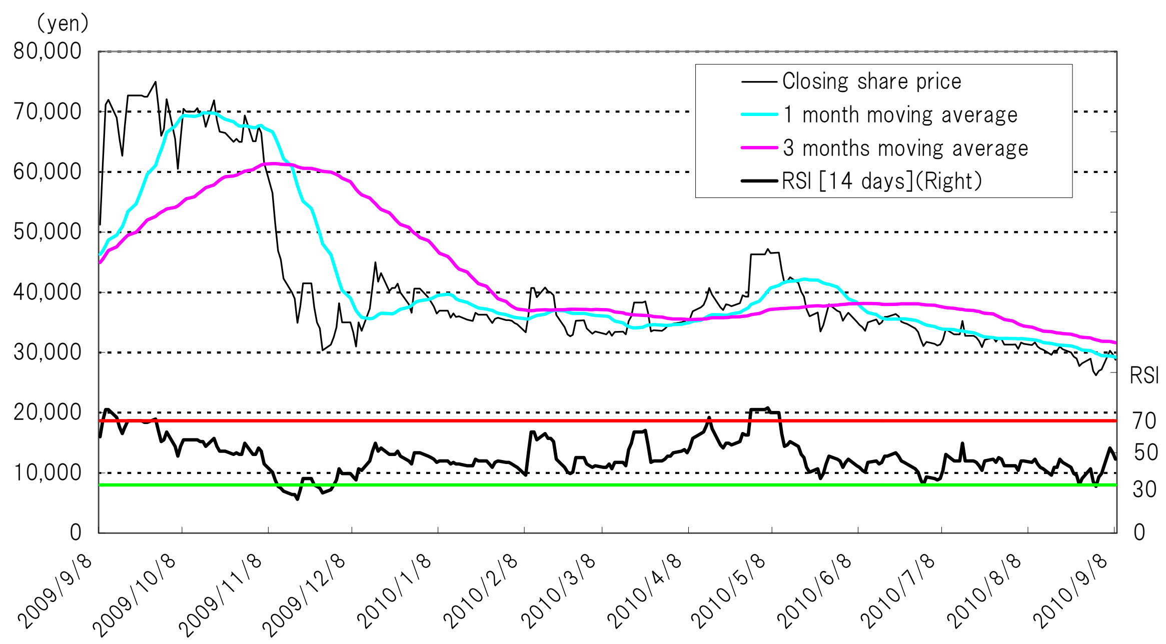
Key Financial Data (Consolidated)		
Total Assets (￥million)	Dec. 09	9,365
Shareholders' Equity (￥million)	Dec. 09	2,855
Interest-Bearing Debt (￥million)	Dec. 09	3,309
Equity Ratio (%)	Dec. 09	30.5
Ratio of Interest-Bearing Debt (%) ※5	Dec. 09	116
Free Cash Flows (￥million) ※6	Dec. 09	△ 473

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end
※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end
※3 PCFR=Maket Value÷(Current Net Income+Depreciation)
※4 Average Daily Volume=Average Daily Volume for the last 12 months
※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity
※6 Free Cash Flows=Operating CF+Investment CF

Consolidated (￥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (￥)	Dividend per Share (￥)
FY12/06	21,197	119	118	97	783.3	300.00
FY12/07	24,321	1,013	1,004	583	4,917.3	492.00
FY12/08	24,148	1,113	1,134	641	5,412.3	644.00
FY12/09	17,964	△ 150	22	△ 215	1,511.0	644.00
FY12/10 Interim	12,839	256	379	162	1,113.5	--
FY12/10 fcst.	28,500	1,600	1,800	1,050	7,205.2	721.00

Note: FY12/10 forecasts announced on July 14, 2010

Stock price charts and RSI



Source: Prepared by Trias Corp. with Bloomberg L.P. data.
Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices.
In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.
RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days+averaged share price decline for N days)×100