

# Third Quarter Kessan Report for the March 2006 Term (Consolidated)

February 3, 2006

## SATO CORPORATION

Company code number: 6287  
 (URL <http://www.sato.co.jp/>)  
 Shares traded: TSE  
 Executive position of legal representative: Masanori Otsuka, President and COO,  
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### 1. Statements regarding the preparation, etc. of quarterly financial information

- (1) Use of simplified accounting methods: Yes  
 - The Company calculates corporate and other taxes by estimating annual rates of taxation based on effective statutory tax rates.
- (2) Changes in accounting methods: None
- (3) Changes in scope of consolidation or in companies accounted for under the equity method: Yes  
 - Consolidation (new): 1

### 2. Financial status and operating results for the third quarter of the year to March 31, 2006 (April 1, 2005 to December 31, 2005)

#### (1) Consolidated financial results

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2005	50,484	7.9	4,016	(1.1)	4,167	3.1
December 31, 2004	46,773	8.0	4,063	5.8	4,043	7.8
March 31, 2005	61,752		5,144		5,309	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
December 31, 2005	2,115	(3.1)	67.43	-
December 31, 2004	2,183	0.9	69.58	69.56
March 31, 2005	3,012		96.01	95.99

(Note)

- The percentages shown alongside net sales, operating income, etc. indicate changes from the year-earlier quarter.
- There is no entry for net income per share, fully diluted, for the third quarter of the year to March 2006 because the Company had no residual securities capable of diluting earnings.

### **Quarterly operating results (percentage changes, year-on-year)**

As a result of firm demand in the domestic market and the impact of sales-related restructuring overseas, the Company reported a 7.9 % year-on-year increase to ¥50,484 million in net sales in the third quarter. Sales in the third quarter have thus increased to record levels for the second consecutive year.

Domestically, sales grew by 4.9 percent to ¥40,423 million. The use of automatic identification technology has continued to expand steadily across a wide spectrum of industries, including healthcare, retailing, manufacturing and food processing. Sales to hospitals of systems that prevent medical errors through use of bar codes and radio frequency identification (RFID) systems and of label-issuing systems designed for medical charts and laboratory specimens have been strong. This has contributed to rapid growth in sales of tabletop bar code printers, notably the L'esprit Series, which has become one of the most highly regarded in the healthcare industry. Since its introduction five years ago, the L'esprit Series has grown into one of the Company's major products, recording sales of over 100,000 units. Reflecting the recovery in personal consumption in Japan, the Company has also been involved in an increasing number of negotiations with large retailers on the introduction of markdown control systems. The recovery in consumption has also contributed to a larger number of negotiations on the introduction of traceability systems with electrical appliance and electronic component manufacturers and with soft drink and food manufacturers.

Overseas, sales increased by 22.1 percent to ¥10,060 million. Contributing to this strong performance were a number of factors, including the steady development of the Company's North American business, strong sales in Asia, and the addition of SATO FRANCE SAS to the Sato Group in February 2005.

Profit comparisons have been affected by the sharp increase in sales last year from the introduction of tax inclusive price labeling. While reducing manufacturing costs and cutting expenses, the Company has endeavored to increase sales and to improve profit margins in each successive quarter of the current year. In the third quarter, it succeeded in rapidly reducing the year-on-year decline in profits, reporting operating income of ¥4,016 million (-1.1%), ordinary profit of ¥4,167 million (+3.1%), and net income of ¥2,115 million (-3.1%).

On December 22, 2005, SATO INTERNATIONAL PTE. LTD. , which oversees all of the Company's international operations, entered into a definitive agreement to purchase the bar code systems business of Checkpoint Systems, Inc. of the United States. The transaction was disclosed on the same day. The Company will pay approximately \$8.6 million in excess of book value for Checkpoint's bar code operations, with the total value of the transaction expected to be around \$40 million. An audit of the shareholders' equity to be transferred is currently being carried out. The Company views this as an extremely valuable acquisition not only because it will provide it with label plants in North America, Europe and Australia, but also because it will enable it to expand its sales of electronic printers.

## (2) Consolidated financial position

	Total assets	Shareholders' equity	Equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2005	54,305	35,878	66.1	1,143.22
December 31, 2004	51,030	32,987	64.6	1,051.46
March 31, 2005	51,705	34,008	65.8	1,083.72

## Consolidated cash flow statement

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
December 31, 2005	1,210	(1,750)	(1,060)	8,809
December 31, 2004	1,076	(2,777)	(1,126)	8,786
March 31, 2005	2,873	(3,281)	(999)	10,234

## Changes in financial condition

Total assets increased by ¥2,600 million from the end of previous fiscal year. Shareholders' equity increased by ¥1,870 million, bringing the equity ratio to 66.1%.

As of the third quarter ended December 31, 2005, consolidated cash and cash equivalents (hereinafter, "cash") was ¥8,809 million, increased by ¥23 million relative to the end of previous third quarter.

A summary of the major components of cash flow in the third quarter ended December 31, 2005 is as follows.

### *Net cash provided by operating activities:*

Net cash provided by operating activities amounted to ¥1,210 million.

This was mainly due to the recognition of ¥3,949 million in third quarter income before adjustments for income taxes and to depreciation expenses of ¥1,409 million. These proceeds were partially offset by a ¥2,325 million increase in notes and accounts receivable, a ¥243 million increase in inventories, and a ¥1,020 million decrease in notes and accounts payable, along with payments of ¥1,961 for income taxes paid.

### *Net cash used in investing activities:*

Net cash used in investing activities amounted to ¥1,750 million.

This was mainly the result of acquisition of tangible fixed assets of ¥747 million and intangible fixed assets of ¥890 million.

### *Net cash used in financing activities:*

Net cash used in financing activities amounted to ¥1,060 million, principally for the payment of cash dividends which totaled ¥967 million.

**[Reference data]****Non-consolidated quarterly results (April 1, 2005 to December 31, 2005)**

	Net sales		Operating income		Ordinary profit	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
December 31, 2005	42,480	5.2	4,030	(5.7)	4,379	0.4
December 31, 2004	40,376	6.9	4,275	6.6	4,360	9.0
March 31, 2005	52,893		5,342		5,719	

	Net income		Total assets	Shareholders' equity
	(Millions of yen)	%	(Millions of yen)	(Millions of yen)
December 31, 2005	2,606	(1.4)	57,175	40,478
December 31, 2004	2,642	10.6	54,907	37,779
March 31, 2005	3,660		54,666	38,822

**3. Consolidated forecasts for March 2006 term (April 1, 2005 to March 31, 2006)**

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Annual	66,400	5,800	3,450

(N.b.) Estimated earnings per share (annual): 109.93 yen

**[Reference data]****Non-consolidated forecasts for March 2006 term (April 1, 2005 to March 31, 2006)**

	Net sales	Ordinary profit	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)
Annual	55,550	5,720	3,450

(N.b.) Estimated earnings per share (annual): 109.93 yen

*The forecasts stated above are based on our current expectations and assumptions prepared using information available at present and subject to various uncertainties. Actual results may differ due to a variety of causes.*

### **Qualitative information regarding forecasts**

In Japan, economic activity picked up considerable momentum in the second half of 2005, with the recovery extending across a wide range of industries, including manufacturing, sales, and distribution. Expanding personal consumption has increased the need in work places of all industries for the enhanced efficiencies provided by bar codes, 2-D codes, RFID, and other automatic identification technologies. These needs are increasing not only in highly profitable sectors such as automobiles, electrical appliances and electronic components, and steel, but also in such industries as healthcare, product distribution, food processing, and agricultural and marine product sales (rice, fish, vegetables, meat, etc.).

In North America, negotiations with potentially large accounts are increasing as the Company adds new distributors. Sales in China are also strong. And with label manufacturing becoming fully viable in Thailand and Malaysia, the Company is increasing its ability to supply manufacturers in that region. In Europe, the Company is making progress toward reducing its deficits. By taking steps to further reduce manufacturing costs and operating expenses, the Company will engage in a full-scale effort to increase its profits.

Accordingly, the Company reaffirms the forecasts for full-year results which were announced at the beginning of the term.

## Consolidated balance sheets (Summary)

Millions of yen	December 31, 2005	December 31, 2004	Increase/decrease %	March 31, 2005	
<b>Current assets</b>					
Cash	8,759	8,835	(76)	10,184	
Notes and accounts receivable	17,005	15,383	1,621	14,319	
Marketable securities	50	50	0	50	
Inventories	8,141	7,286	855	7,581	
Deferred credit	518	549	(30)	547	
Others	938	980	(42)	928	
Allowance for doubtful accounts	(81)	(60)	(20)	(68)	
Total current assets	35,332	33,025	2,306	7.0	33,542
<b>Fixed assets</b>					
<b>Tangible fixed assets</b>					
Buildings and structures	5,290	4,783	507	4,725	
Machinery, equipment and delivery equipment	2,099	2,189	(90)	2,288	
Tools, furniture and fixtures	1,239	1,071	168	1,111	
Land	5,658	5,614	43	5,612	
Construction in progress	83	325	(242)	540	
	14,372	13,985	386	2.8	14,278
<b>Intangible fixed assets</b>	2,843	2,246	597	26.6	2,354
<b>Investments and other assets</b>					
Investment securities	243	51	191	156	
Long-term loans	53	57	(3)	56	
Guarantee deposits	706	660	46	670	
Others	843	1,100	(256)	746	
Allowance for doubtful accounts	(89)	(96)	7	(99)	
	1,758	1,772	(14)	(0.8)	1,530
Total fixed assets	18,973	18,004	969	5.4	18,162
<b>Total assets</b>	<b>54,305</b>	<b>51,030</b>	<b>3,275</b>	<b>6.4</b>	<b>51,705</b>

Millions of yen	December 31, 2005	December 31, 2004	Increase/decrease %	March 31, 2005
<b>Current liabilities</b>				
Notes and accounts payable	4,578	5,411	(833)	5,301
Short-term borrowings	391	126	264	350
Accounts payable - other	8,494	8,071	423	7,820
Income taxes payable	795	775	20	1,090
Reserve for bonuses	105	38	67	63
Others	3,220	2,992	228	2,395
	17,587	17,416	170	17,022
<b>Long-term liabilities</b>				
Reserve for employees' retirement benefits	336	153	182	197
Reserve for directors' retirement allowances	245	267	(21)	267
Others	253	204	48	208
	835	626	209	673
Total liabilities	18,423	18,042	380	17,696
<b>Minority interest in consolidated subsidiaries</b>	4	-	4	-
<b>Shareholders' equity</b>				
Common stock	6,331	6,331	-	6,331
Capital reserves	5,792	5,790	1	5,791
Retained earnings	25,287	23,314	1,972	24,143
Unrealized gains or losses on other securities	30	9	20	13
Foreign currency translation adjustment	(32)	(903)	871	(736)
Treasury stock	(1,529)	(1,554)	25	(1,534)
Total shareholders' equity	35,878	32,987	2,890	34,008
<b>Total liabilities, minority interest and shareholders' equity</b>	<b>54,305</b>	<b>51,030</b>	<b>3,275</b>	<b>51,705</b>

## Consolidated statements of income (Summary)

Millions of yen	Nine months ended December 31, 2005	Nine months ended December 31, 2004	Increase/decrease %		Year ended March 31, 2005
<b>Net sales</b>	50,484	46,773	3,710	7.9	61,752
<b>Cost of sales</b>	27,913	25,136	2,776	11.0	33,330
Gross profit on sales	22,570	21,637	933	4.3	28,422
<b>Selling, general and administrative expenses</b>	18,554	17,574	979	5.6	23,277
Operating income	4,016	4,063	(46)	(1.1)	5,144
<b>Non operating income</b>					
Interest income	21	18	2		33
Dividend income	1	3	(1)		3
Foreign exchange gain	258	-	258		-
Gain on cancellations of endowment insurance	-	-	-		209
Others	128	115	12		143
	409	137	271	196.8	389
<b>Non operating expenses</b>					
Interest expenses	74	40	34		58
Foreign exchange loss	-	24	(24)		32
Others	183	92	90		133
	258	157	101	64.1	225
Ordinary profit	4,167	4,043	123	3.1	5,309
<b>Extraordinary gains</b>	1	195	(193)	(99.3)	193
<b>Extraordinary losses</b>	219	178	41	23.0	252
Income before adjustments for income taxes	3,949	4,059	(110)	(2.7)	5,251
Taxes	1,828	1,883	(54)	(2.9)	2,232
Minority interest in income (loss) of consolidated subsidiaries	4	(6)	11	-	6
<b>Net income</b>	2,115	2,183	(67)	(3.1)	3,012



## Consolidated statements of cash flows (Summary)

Millions of yen	Nine months ended December 31, 2005	Nine months ended December 31, 2004	Year ended March 31, 2005
<b>Net cash provided by operating activities</b>			
Income before adjustments for income taxes	3,949	4,059	5,251
Depreciation expenses	1,409	1,205	1,698
Gain on sales of investment securities	-	(192)	(192)
Gain on sales of marketable securities	(1)	-	-
Loss on disposal of fixed assets	11	14	16
Loss on business restructuring	179	64	154
Earthquake-related losses	-	69	74
Gain (loss) on sales of tangible fixed assets	(1)	(2)	(1)
Increase (decrease) in allowance for doubtful accounts	0	(9)	(6)
Increase (decrease) in reserve for bonuses	7	(470)	(417)
Increase (decrease) in reserve for directors' retirement allowances	(21)	(2)	(2)
Increase (decrease) in reserve for retirement benefits	138	124	168
Interest and dividends received	(22)	(22)	(36)
Interest expenses	74	40	58
Foreign exchange loss (gain)	157	67	210
Decrease (increase) in notes and accounts receivable	(2,325)	(1,157)	275
Decrease (increase) in inventories	(243)	(1,573)	(1,694)
Decrease (increase) in prepaid expenses	(158)	(73)	(52)
Decrease (increase) in accounts receivable - others	29	(52)	46
Increase (decrease) in notes and accounts payable	(1,020)	371	133
Increase (decrease) in accounts payable - other	562	1,067	787
Impairment losses	-	-	3
Loss on sale of equity investment	-	3	3
Others	679	156	(951)
	<u>3,402</u>	<u>3,687</u>	<u>5,527</u>
Payments related to losses on business restructuring	(179)	(64)	(154)
Payments associated with earthquake-related losses	-	(69)	(74)
Interest and dividends received	22	22	36
Interest paid	(74)	(40)	(58)
Income taxes paid	(1,961)	(2,459)	(2,402)
	<u>1,210</u>	<u>1,076</u>	<u>2,873</u>
<b>Net cash used in investing activities</b>			
Increase in time deposits	-	(100)	(100)
Decrease in time deposits	-	100	200
Payments for investments in securities	(50)	-	-
Proceeds from sales of marketable securities	12	-	-
Proceeds from sales of investment securities	-	318	318
Purchase of tangible fixed assets	(747)	(2,756)	(3,130)
Proceeds from sales of tangible fixed assets	27	562	294
Purchase of intangible fixed assets	(890)	(883)	(947)
Proceeds from capital issuance to minority shareholders	-	-	(10)
Payments resulting from receipt of marketing rights	(35)	-	-
Others	(67)	(17)	94
	<u>(1,750)</u>	<u>(2,777)</u>	<u>(3,281)</u>

Millions of yen	Nine months ended December 31, 2005	Nine months ended December 31, 2004	Year ended March 31, 2005
<b>Net cash used in financing activities</b>			
Increase (decrease) in short-term borrowings	(100)	(263)	(119)
Increase in long-term debt	2	-	-
Proceeds from sales of treasury stock	8	14	37
Purchase of treasury stock	(3)	(7)	(8)
Cash dividend paid	(967)	(869)	(908)
	(1,060)	(1,126)	(999)
Effect of exchange rate changes on cash and cash equivalents	176	99	129
Net increase (decrease) in cash and cash equivalents	(1,424)	(2,726)	(1,278)
Cash and cash equivalents at beginning of term	10,234	11,512	11,512
Cash and cash equivalents at end of term	8,809	8,786	10,234

## 4. Segment information

### Business segment information

Millions of yen	Mechatronic product business	Supply product business	Total	Eliminations	Consolidated
<b>Nine months ended December 31, 2005</b>					
Sales					
External customer sales	22,179	28,304	50,484	( - )	50,484
Intersegment transactions and eliminations	-	-	-	( - )	-
	22,179	28,304	50,484	( - )	50,484
Operating expenses	20,128	26,338	46,467	( - )	46,467
Operating income	2,051	1,965	4,016	( - )	4,016
<b>Nine months ended December 31, 2004</b>					
Sales					
External customer sales	20,711	26,062	46,773	( - )	46,773
Intersegment transactions and eliminations	-	-	-	( - )	-
	20,711	26,062	46,773	( - )	46,773
Operating expenses	18,483	24,227	42,710	( - )	42,710
Operating income	2,228	1,835	4,063	( - )	4,063
<b>Year ended March 31, 2005</b>					
Sales					
External customer sales	27,660	34,091	61,752	( - )	61,752
Intersegment transactions and eliminations	-	-	-	( - )	-
	27,660	34,091	61,752	( - )	61,752
Operating expenses	24,856	31,751	56,607	( - )	56,607
Operating income	2,804	2,340	5,144	( - )	5,144

(Note)

The main products of each business segment are as follows:

Mechatronic product business: electronic printers, hand labelers

Supply product business: labels/tags for electronic printer, labels for hand labeler, IC tags/labels, tickets, ribbons, MC-cards

## Geographical segment information

Millions of yen	Japan	North America	Europe	Asia	Total	Eliminations	Consolidated
<b>Nine months ended December 31, 2005</b>							
Sales							
External customers	40,423	3,051	4,796	2,213	50,484	-	50,484
Intersegment sales	2,056	15	862	9,918	12,852	(12,852)	-
	42,480	3,067	5,658	12,131	63,337	(12,852)	50,484
Operating expenses	38,449	2,888	6,161	11,637	59,136	(12,669)	46,467
Operating income	4,030	178	(502)	493	4,200	(183)	4,016
<b>Nine months ended December 31, 2004</b>							
Sales							
External customers	38,534	2,630	3,975	1,632	46,773	-	46,773
Intersegment sales	1,842	19	89	7,418	9,369	(9,369)	-
	40,376	2,650	4,065	9,050	56,143	(9,369)	46,773
Operating expenses	36,101	2,728	4,706	8,793	52,330	(9,619)	42,710
Operating income	4,275	(77)	(641)	257	3,813	250	4,063
<b>Year ended March 31, 2005</b>							
Sales							
External customers	50,405	3,625	5,459	2,261	61,752	-	61,752
Intersegment sales	2,487	20	109	10,263	12,881	(12,881)	-
	52,893	3,645	5,568	12,525	74,633	(12,881)	61,752
Operating expenses	47,551	3,707	6,301	12,225	69,785	(13,178)	56,607
Operating income	5,342	(61)	(732)	299	4,847	296	5,144

(Notes)

- Regions are categorized on the basis of geographical proximity.
- Outside Japan, the countries belonging to the various regions are as follows.
  - North America: U.S.A.
  - Europe: Germany, U.K., Poland, Belgium, France
  - Asia: Malaysia, Singapore, Thailand, China, Vietnam

## Overseas sales

Millions of yen	Nine months ended December 31, 2005		Nine months ended December 31, 2004		Year ended March 31, 2005	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	3,051	6.0	2,630	5.6	3,625	5.9
Europe	4,796	9.5	3,975	8.5	5,459	8.8
Asia and others	2,213	4.4	1,632	3.5	2,261	3.7
	10,060	19.9	8,239	17.6	11,346	18.4
Consolidated sales	50,484		46,773		61,752	

(Notes)

- Regions are categorized on the basis of geographical proximity.
- Outside Japan, the countries belonging to the various regions are as follows.
  - North America: USA, Canada
  - Europe: Germany, UK, France, Italy, etc.
  - Asia and others: Malaysia, Singapore, Thailand, China, Australia, etc.
- Overseas sales are composed of sales made in countries and regions other than Japan by SATO CORPORATION and its consolidated subsidiaries.