First Quarter Kessan Report for the March 2009 Term (Consolidated)

August 14, 2008

SATO CORPORATION

Company code number:	6287 (URL http://www.sato.co.jp)
Shares traded:	TSE
Executive position of legal representative:	Koichi Nishida, President and CEO, Representative Corporate Executive Officer
Please address all communications to:	Tatsuo Narumi, Director, Vice President, General Manager, Corporate Planning & Administration Division Phone: (03) 5789-2500
Scheduled submission date for quarterly report:	August 14, 2008

1. Consolidated operating results for the first three months of the year ended March 31, 2009 (from April 1, 2008 to June 30, 2008)

(1) Consolidated financial results (cumulative)

(In millions of yen, with fractional amounts discarded)
(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income	
Three months ended	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
June 30, 2008	21,600	-	1,047	-	1,184	-
June 30, 2007	21,753	8.8	1,346	10.6	1,522	24.7

	Net income		Net income per share	Net income per share, fully diluted
Three months ended	(Millions of yen)	%	(Yen)	(Yen)
June 30, 2008	599	-	19.60	-
June 30, 2007	763	77.8	24.54	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
As of June 30, 2008	67,409	37,618	55.7	1,226.43
As of March 31, 2008	66,103	36,671	55.4	1,195.69

(N.B.) Total equity:
As of June 30, 2008: ¥37,545 million　　As of March 31, 2008: ¥36,604 million

2. Dividends

(Record date)	Annual dividend per share				
	First quarter	Second quarter	Third quarter	End of term	Annual
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2008	-	16.00	-	17.00	33.00
March 31, 2009	-	–	–	–	–
March 31, 2009 (Forecast)	–	16.00	-	17.00	33.00

(Note) Revisions of projected dividends during the first three months under review: None

3. Consolidated forecasts for March 2009 term (from April 1, 2008 to March 31, 2009)

(Percentage figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
First six months	43,600	-	2,250	-	2,200	-	1,100	-	35.93
Annual	90,000	2.5	5,700	5.5	5,400	13.7	2,600	26.0	84.93

(Note) Revisions of consolidated forecasts during the first three months under review: Yes

4. Others

(1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation): None

New: — Elimination: —

(2) Application of simplified accounting as well as specific accounting for preparing the quarterly consolidated financial statements: Yes

(Note) Please refer to page 7 (“4. Others (2)”) for further details.

(3) Changes in accounting policies, procedures, and methods of presentation for preparing the quarterly consolidated financial statements (changes described in the section of “Changes in significant matters forming the basis of preparing the quarterly consolidated financial statements”)

1) Changes due to revisions to accounting standards and other regulations: Yes

2) Changes due to other reasons: Yes

(Note) Please refer to page 8 (“4. Others (3)”) for further details.

(4) Number of issued shares (common stock)

1) Number of issued shares at the end of the term (including treasury stock):

June 30, 2008: 32,001,169 shares

March 31, 2008: 32,001,169 shares

2) Number of treasury stock at the end of the term:

June 30, 2008:	1,387,950 shares
March 31, 2008:	1,387,727 shares

3) Average number of shares during the term (cumulative from the beginning of the fiscal year to the end of the first three months under review):

June 30, 2008:	30,613,272 shares
June 30, 2007:	31,114,458 shares

**** Proper use of consolidated forecasts, and other special directions***

1. *The above-noted forecasts were prepared on the basis of information obtainable as of the day of the announcement of this report; a variety of factors could cause actual results to differ from these forecasts.*
2. *Commencing with the current fiscal year, the "Accounting Standard for Quarterly Financial Reporting" (ASBJ [Accounting Standards Board of Japan] Statement No. 12) and the "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14) are applied. Also, quarterly consolidated financial statements are prepared in accordance with the "Regulation for Quarterly Consolidated Financial Statements."*

Qualitative Information and Financial Statements, etc.

1. Qualitative information on consolidated financial results (percentage changes, year-on-year)

During the first three months ended June 30, 2008, the financial performance of the SATO Group continued to benefit from strong sales in a number of sectors in Japan, notably medical care, food processing, manufacturing, and transportation. This led to a ¥635 million increase in net sales. Overseas, however, consolidated net sales declined by ¥153 million, as demand stalled among countries due to fears of a global economic slowdown touched off by financial market instability originating in the U.S. The fall in overseas sales also reflected a ¥513 million difference in foreign exchange impacts from the same period of the previous year.

In terms of profits, the SATO Group dealt successfully with one of its key issues, which was the need to improve the financial performance of overseas subsidiaries in Germany and Spain. This generated a ¥261 million improvement in operating income for Europe, which pushed the region's operations into the black. This was offset, however, by deficits at manufacturing subsidiaries because the Group temporarily reduced manufacturing output at the Malaysia and Vietnam plants to adjust inventories, as part of an effort to improve cash flow. With regard to another issue of skyrocketing costs of base paper in Japan, the Group responded by taking steps to reduce costs in the label products manufacturing division and by passing the costs to sale prices in the sales division. This adjustment has moved ahead on schedule and consolidated operating income is slightly above to the Group's plans for the current fiscal year.

As a result of the foregoing, consolidated net sales in the first three months declined by 0.7% to ¥21,600 million; consolidated operating income declined by 22.2% to ¥1,047 million; consolidated ordinary income declined by 22.2% to ¥1,184 million; and consolidated net income declined by 21.4% to ¥599 million.

By segment, the Company reported the following:

By business segment

a. Mechatronic products business

   Net sales declined by 1.6% to ¥8,778 million; operating income declined by 38.2% to ¥429 million.

b. Supply products business

   Net sales declined by 0.1% to ¥12,822 million; operating income declined by 5.1% to ¥618 million.

By geographical segment

a. Japan

Net sales increased by 4.3% to ¥15,420 million; operating income declined by 16.3% to ¥1,046 million.

b. North America

Net sales declined by 14.9% to ¥2,106 million; operating income increased by 20.4% to ¥114 million.

c. Europe

Net sales declined by 4.6% to ¥2,647 million; an operating income of ¥114 million was recorded compared to an operating loss of ¥146 million in the same period of the previous fiscal year.

d. Asia and Oceania

Net sales declined by 17.0% to ¥1,426 million; an operating loss of ¥114 million was recorded compared to an operating income of ¥39 million in the same period of the previous fiscal year.

2. Qualitative information on consolidated financial position

Total assets at the end of the first three months were ¥67,409 million, an increase of ¥1,306 million compared to the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable–trade and in cash and deposits.

Net assets were ¥37,618 million, resulting in an equity ratio of 55.7%. These levels were roughly equivalent to levels at the end of the previous fiscal year.

Cash flows

At the end of the first three months, cash and cash equivalents (hereinafter, “cash”) stood at ¥11,621 million, an increase of ¥586 million compared to the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥1,791 million.

The increase in cash reflected principally income before income taxes and minority interests of ¥1,152 million and of depreciation and amortization of ¥619 million. In addition, accounts payable–other increased by ¥1,295 million while inventories decreased by ¥811 million. Contributing to a decrease in cash were a ¥37 million increase in notes and accounts receivable–trade, a ¥1,140 million decrease in notes and accounts payable–trade, and ¥653 million in income taxes paid.

Cash flows from investment activities

Net cash used in investment activities amounted to ¥514 million.

This resulted primarily from an expenditure of ¥426 million to purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥968 million.

This primarily reflected cash dividends paid of ¥474 million and a net decrease in short-term loans payable of ¥490 million.

3. Qualitative information on consolidated forecasts

In its consolidated forecasts for the first six months of the fiscal year ending March 31, 2009, the SATO Group is expecting a decline in sales in the U.S. and Asia-Oceania due to a continued deceleration of global economy. At the same time, the SATO Group is anticipating that the measures that it has put in place to strengthen profitability internally will make further progress. Accordingly, it is revising its original forecasts for the first six months as follows (figures in parenthesis are the previous forecasts):

Net sales:	¥43,600 million	(¥44,400 million)
Operating income:	¥2,250 million	(¥2,250 million)
Ordinary income:	¥2,200 million	(¥2,050 million)
Net income:	¥1,100 million	(¥950 million)

This has resulted in the following changes to annual forecasts:

Net sales:	¥90,000 million	(¥92,000 million)
Operating income:	¥5,700 million	(¥5,700 million)
Ordinary income:	¥5,400 million	(¥5,400 million)
Net income:	¥2,600 million	(¥2,600 million)

In domestic and overseas markets, the Group will continue to promote the sharing of information on sales and manufacturing among all of its operating units, increasing their access to such information in both quantitative and qualitative terms, and to drive new product development in a manner that meets market needs. The Group will endeavor to strengthen its innate capabilities as a business enterprise and to bolster its competitiveness by continuing to deal with group-wide issues such as improving its financial performance in Europe and responding to the explosive rise in the cost of base paper.

Finally, in its forecasts, the Group is assuming the following foreign exchange rates:

Forex assumptions for the period from the first six months to the end of the fiscal year:

US$ = ¥105

Euro = ¥162

(Cf., original assumptions of US$ = ¥100 and Euro = ¥160)

4. Others

(1) Changes in significant subsidiaries during the term (changes in specified subsidiaries resulting in the change in scope of consolidation):

Not applicable

(2) Application of simplified accounting as well as specific accounting for preparing the quarterly consolidated financial statements:

1. Simplified accounting methods

1) Inventory valuation method

With respect to the calculation of inventories at the end of the first three months, physical inventories were omitted and a reasonable calculation method based on the physical inventories at the end of the previous fiscal year was employed.

In addition, concerning the write-down of the book value of inventories, only for those items whose drop in profitability was apparent, an estimate of net sale value was made and book values were written down.

2) Calculation method of depreciation of noncurrent assets

Depreciation expense for noncurrent assets that are depreciated using the declining-balance method is calculated by dividing the annual depreciation expense on a pro-rata basis.

3) Calculation method of deferred tax assets and deferred tax liabilities

The method for determining the recoverability of deferred tax assets uses the forecasts and tax planning used in the previous consolidated fiscal year because it has been recognized that no material changes have occurred in the business and other environments, or in temporary differences or other events.

2. Specific accounting for preparing the quarterly consolidated financial statements

Calculation of taxes:

For certain overseas subsidiaries, taxes are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting against income before income taxes and minority interests for the fiscal year including the first three months under review, and next by multiplying the income before income taxes and minority interests by such estimated effective tax rate.

Note that deferred income taxes is included in current income taxes on the statement.

(3) Changes in accounting policies, procedures, and methods of presentation for preparing the quarterly consolidated financial statements

1. Application of accounting standards related to quarterly financial statements

Commencing with the current fiscal year, the “Accounting Standard for Quarterly Financial Reporting” (ASBJ [Accounting Standards Board of Japan] Statement No. 12) and the “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14) are applied. Also, quarterly consolidated financial statements are prepared in accordance with the “Regulation for Quarterly Consolidated Financial Statements.”

2. Valuation criteria and method of important assets

Inventories

Before the change, inventories held for normal sales were stated mainly using the gross average cost method. However, because the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006) is applied from the first three months under review, we now employ mainly the gross average cost method (for the value stated in the balance sheet, the book value is written down based on the decreased profitability).

The impact of this change on gains and losses is immaterial.

3. Application of “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”

From the first three months under review, the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (PITF Practical Solution No. 18) is applied, and necessary amendments for consolidated financial statements are made.

The impact of this change on gains and losses is immaterial.

5. Consolidated financial statements

(1) Consolidated balance sheets

Millions of yen	June 30, 2008	March 31, 2008 (Summary)
Assets		
Current assets		
Cash and deposits	11,470	10,926
Notes and accounts receivable–trade	20,729	20,334
Short-term investment securities	151	108
Merchandise	124	169
Finished goods	7,986	8,377
Semi-finished goods	432	442
Raw materials	2,066	2,036
Work in process	126	99
Other	2,476	2,059
Allowance for doubtful accounts	(248)	(226)
Total current assets	45,316	44,329
Noncurrent assets		
Property, plant and equipment	16,206	15,846
Intangible assets		
Goodwill	1,010	997
Other	2,073	2,118
Total intangible assets	3,084	3,115
Investments and other assets	2,802	2,811
Total noncurrent assets	22,092	21,773
Total assets	67,409	66,103

Millions of yen	June 30, 2008	March 31, 2008 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable–trade	4,762	5,845
Short-term loans payable	6,163	6,558
Accounts payable–other	11,832	10,394
Income taxes payable	632	734
Provision	251	430
Other	3,726	3,059
Total current liabilities	27,368	27,023
Noncurrent liabilities		
Long-term loans payable	5	8
Provision for retirement benefits	1,824	1,811
Other	591	589
Total noncurrent liabilities	2,421	2,408
Total liabilities	29,790	29,431
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	27,579	27,481
Treasury stock	(2,953)	(2,953)
Total shareholders' equity	36,755	36,658
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6	5
Foreign currency translation adjustment	782	(59)
Total valuation and translation adjustments	789	(53)
Subscription rights to shares	67	58
Minority interests	6	8
Total net assets	37,618	36,671
Total liabilities and net assets	67,409	66,103

(2) Consolidated statements of income

Millions of yen	Three months ended June 30, 2008
Net sales	21,600
Cost of sales	12,444
Gross profit	9,155
Selling, general and administrative expenses	8,108
Operating income	1,047
Non-operating income	
Interest income	11
Dividends income	3
Foreign exchange gains	237
Other	47
Total non-operating income	300
Non-operating expenses	
Interest expenses	32
Valuation loss from swap transaction	93
Other	37
Total non-operating expenses	163
Ordinary income	1,184
Extraordinary income	
Gain on sales of noncurrent assets	0
Other	1
Total extraordinary income	1
Extraordinary loss	
Loss on prior period adjustment	26
Loss on retirement of noncurrent assets	1
Loss on sales of noncurrent assets	2
Impairment loss	2
Total extraordinary losses	32
Income before income taxes and minority interests	1,152
Income taxes–current	571
Income taxes–deferred	(19)
Total income taxes	552
Minority interests in income	0
Net income	599

(3) Consolidated statements of cash flows

Millions of yen	**Three months ended June 30, 2008**
Net cash provided by (used in) operating activities	
Income before income taxes and minority interests	1,152
Depreciation and amortization	619
Amortization of goodwill	55
Loss (gain) on sales of noncurrent assets	2
Loss on retirement of noncurrent assets	1
Increase (decrease) in provision	(39)
Increase (decrease) in allowance for doubtful accounts	8
Increase (decrease) in provision for retirement benefits	(70)
Interest and dividends income	(14)
Interest expenses	32
Foreign exchange losses (gains)	(310)
Decrease (increase) in notes and accounts receivable–trade	(37)
Decrease (increase) in inventories	811
Increase (decrease) in notes and accounts payable–trade	(1,140)
Increase (decrease) in accounts payable–other	1,295
Other, net	96
Subtotal	2,463
Interest and dividends income received	14
Interest expenses paid	(32)
Income taxes paid	(653)
Net cash provided by (used in) operating activities	1,791

Millions of yen	Three months ended June 30, 2008
Net cash provided by (used in) investment activities	
Purchase of property, plant and equipment	(426)
Proceeds from sales of property, plant and equipment	3
Purchase of intangible assets	(20)
Other, net	(69)
Net cash provided by (used in) investment activities	(514)
Net cash provided by (used in) financing activities	
Net increase (decrease) in short-term loans payable	(490)
Repayment of long-term loans payable	(2)
Purchase of treasury stock	(0)
Cash dividends paid	(474)
Net cash provided by (used in) financing activities	(968)
Effect of exchange rate change on cash and cash equivalents	277
Net increase (decrease) in cash and cash equivalents	586
Cash and cash equivalents at beginning of period	11,035
Cash and cash equivalents at end of period	11,621

Commencing with the current fiscal year, the "Accounting Standard for Quarterly Financial Reporting" (ASBJ [Accounting Standards Board of Japan] Statement No. 12) and the "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14) are applied. Also, quarterly consolidated financial statements are prepared in accordance with the "Regulation for Quarterly Consolidated Financial Statements."

(4) Note related to assumption of going-concern

Not applicable

(5) Segment information

a. Business segment information

Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations and corporate	Consolidated
Three months ended June 30, 2008					
Sales					
External customer sales	8,778	12,822	21,600	(-)	21,600
Intersegment sales and transfer	-	-	-	(-)	-
Total	8,778	12,822	21,600	(-)	21,600
Operating income	429	618	1,047	(-)	1,047

(Note)

1. Business segments are classified into Mechatronic products business and Supply products business according to the category of products. The main products of each business segment are as follows:
   a. Mechatronic products business: electronic printers, hand labelers
   b. Supply products business: labels/tags for electronic printers, labels for hand labelers, IC tags/labels, tickets, ribbons, MC-cards

b. Geographical segment information

Millions of yen	Japan	North America	Europe	Asia and Oceania	Total	Eliminations and corporate	Consolidated
Three months ended June 30, 2008							
Sales							
External customers	15,420	2,106	2,647	1,426	21,600	-	21,600
Intersegment sales	437	9	83	2,015	2,546	(2,546)	-
Total	15,858	2,115	2,731	3,441	24,147	(2,546)	21,600
Operating income (loss)	1,046	114	114	(114)	1,160	(112)	1,047

(Notes)

1. Countries and regions are categorized on the basis of geographical proximity.
2. Outside Japan, the countries belonging to the various regions are as follows.
   (1) North America: U.S.A.
   (2) Europe: Germany, U.K., Poland, Belgium, France, Spain and Sweden
   (3) Asia and Oceania: Malaysia, Singapore, Thailand, China, Vietnam, Australia and New Zealand

c. Overseas sales

	Three months ended June 30, 2008	
Millions of yen	**Overseas sales**	**As % of net sales**
North America	2,106	9.8
Europe	2,647	12.3
Asia, others	1,426	6.6
Total	6,180	28.6
Consolidated sales	21,600	

(Notes)

1. Countries and regions are categorized on the basis of geographical proximity.
2. Outside Japan, the countries belonging to the various regions are as follows:
   (1) North America: U.S.A. and Canada
   (2) Europe: Germany, U.K., France, Italy, etc.
   (3) Asia, others: Malaysia, Singapore, Thailand, China, Australia, etc.
3. Overseas sales are composed of sales made in countries and regions other than Japan by the Company and its consolidated subsidiaries.

(6) Note in the event of material changes in amount of shareholders' equity

Since there were no material changes in the amount of shareholders' equity, this section has been left blank.

(Reference)

Financial statements for the three months ended June 30, 2007

(1) Consolidated statements of income **(Summary)**

Millions of yen	Three months ended June 30, 2007
Net sales	21,753
Cost of sales	12,162
Gross profit on sales	9,591
Selling, general and administrative expenses	8,245
Operating income	1,346
Non operating income	343
Non operating expenses	166
Ordinary profit	1,522
Extraordinary gains	3
Extraordinary losses	136
Income before adjustments for income taxes	1,389
Taxes	622
Minority interest in income of consolidated subsidiaries	3
Net income	763

(2) Consolidated statements of cash flows **(Summary)**

Millions of yen	**Three months ended June 30, 2007**
Net cash provided by operating activities	
Income before adjustments for income taxes	1,389
Depreciation expenses	609
Amortization of goodwill	61
Loss on disposal of fixed assets	11
Gain on sales of tangible fixed assets	3
Increase (decrease) in allowance for doubtful accounts	11
Increase (decrease) in reserve for bonuses	70
Increase (decrease) in reserve for employees' retirement benefits	53
Interest and dividends received	(17)
Interest expenses	42
Foreign exchange loss (gain)	336
Decrease (increase) in notes and accounts receivable	(500)
Decrease (increase) in inventories	(736)
Decrease (increase) in prepaid expenses	(460)
Decrease (increase) in accounts receivable - other	(6)
Increase (decrease) in notes and accounts payable	343
Increase (decrease) in accounts payable - other	(176)
Others	470
	1,504
Interest and dividends received	17
Interest paid	(42)
Income taxes paid	(1,310)
	169

Millions of yen	Three months ended June 30, 2007
Net cash used in investing activities	
Purchase of tangible fixed assets	(421)
Proceeds from sales of tangible fixed assets	25
Purchase of intangible fixed assets	(88)
Others	9
	(475)
Net cash provided by financing activities	
Increase (decrease) in short-term borrowings	412
Increase (decrease) in long-term debt	241
Purchase of treasury stock	(0)
Cash dividends paid	(489)
	164
Effect of exchange rate changes on cash and cash equivalents	142
Net increase (decrease) in cash and cash equivalents	1
Cash and cash equivalents at beginning of term	10,344
Cash and cash equivalents at end of term	10,346

(3) Segment information

a. Business segment information

Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations and corporate	Consolidated
Three months ended June 30, 2007					
Sales					
External customer sales	8,923	12,830	21,753	(-)	21,753
Intersegment sales and transfer	-	-	-	(-)	-
Total	8,923	12,830	21,753	(-)	21,753
Operating income	694	651	1,346	(-)	1,346

(Note)

1. Business segments are classified into Mechatronic products business and Supply products business according to the category of products. The main products of each business segment are as follows:
   a. Mechatronic products business: electronic printers, hand labelers
   b. Supply products business: labels/tags for electronic printers, labels for hand labelers, IC tags/labels, tickets, ribbons, MC-cards

b. Geographical segment information

Millions of yen	Japan	North America	Europe	Asia and Oceania	Total	Eliminations and corporate	Consolidated
Three months ended June 30, 2007							
Sales							
External customers	14,784	2,475	2,775	1,718	21,753	-	21,753
Intersegment sales	684	26	68	2,198	2,978	(2,978)	-
Total	15,469	2,502	2,843	3,916	24,731	(2,978)	21,753
Operating income (loss)	1,250	95	(146)	39	1,239	107	1,346

(Notes)

1. Countries and regions are categorized on the basis of geographical proximity.
2. Outside Japan, the countries belonging to the various regions are as follows:
   (1) North America: U.S.A.
   (2) Europe: Germany, U.K., Poland, Belgium, France and Spain
   (3) Asia and Oceania: Malaysia, Singapore, Thailand, China, Vietnam, Australia and New Zealand

c. Overseas sales

	Three months ended June 30, 2007	
Millions of yen	**Overseas sales**	**As % of net sales**
North America	2,475	11.4
Europe	2,775	12.8
Asia, others	1,718	7.9
Total	6,969	32.0
Consolidated sales	21,753	

(Notes)

1. Countries and regions are categorized on the basis of geographical proximity.
2. Outside Japan, the countries belonging to the various regions are as follows:
   (1) North America: U.S.A. and Canada
   (2) Europe: Germany, U.K., France, Italy, etc.
   (3) Asia, others: Malaysia, Singapore, Thailand, China, Australia, etc.
3. Overseas sales are composed of sales made in countries and regions other than Japan by the Company and its consolidated subsidiaries.