

First Quarter Kessan Report for the March 2010 Term (Consolidated)

August 6, 2009

SATO CORPORATION

Company code number: 6287
 (URL <http://www.sato.co.jp>)

Shares traded: TSE1

Executive position of legal representative: Koichi Nishida, President and CEO,
 Representative Corporate Executive Officer

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Scheduled submission date for quarterly securities report: August 10, 2009
 Date of commencement of dividend payments: —

1. Consolidated operating results for the first three months of the year ending March 31, 2010 (from April 1, 2009 to June 30, 2009)

(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	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Three months ended						
June 30, 2009	17,937	(17.0)	173	(83.5)	233	(80.3)
June 30, 2008	21,600	-	1,047	-	1,184	-

	Net income		Net income per share		Net income per share, fully diluted	
	(Millions of yen)	%	(Yen)	(Yen)	(Yen)	(Yen)
Three months ended						
June 30, 2009	69	(88.5)	2.29	-	-	-
June 30, 2008	599	-	19.60	-	-	-

(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, 2009	62,333	35,582	56.9	1,178.37
March 31, 2009	61,692	35,918	58.1	1,189.50

(N.B.) Total equity:

As of June 30, 2009: ¥35,482 million

As of March 31, 2009: ¥35,818 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, 2009	-	16.00	-	17.00	33.00
March 31, 2010	-				
March 31, 2010 (Forecast)		16.00	-	17.00	33.00

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

3. Consolidated forecasts for March 2010 term (from April 1, 2009 to March 31, 2010)

(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	36,000	(15.8)	400	(77.6)	400	(77.2)	0	-	0.00
Annual	73,000	(6.6)	1,500	105.5	1,200	237.0	0	-	0.00

(Note) Revisions of consolidated forecasts during the 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 and special accounting for preparing the quarterly consolidated financial statements: Yes

(Note) Please refer to pages 7~8 (“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: None

2) Changes due to other reasons: None

(4) Number of issued shares (common stock)

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

As of June 30, 2009: 32,001,169 shares

As of March 31, 2009: 32,001,169 shares

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

As of June 30, 2009: 1,889,356 shares

As of March 31, 2009: 1,889,170 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):

Three months ended June 30, 2009: 30,111,832 shares

Three months ended June 30, 2008: 30,613,272 shares

**** Disclaimer regarding appropriate use of forecasts and related points of note***

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.

Qualitative Information, Financial Statements and etc.

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

During the first three months ended June 30, 2009, the economic environment encompassing the SATO Group remained stringent, as production adjustments were made in the face of constricting global demand and personal consumption stagnated. However, with indications such as a recovery in demand for supply products in some regions and business sectors thanks to a round of inventory adjustments, we are beginning to see the end of the worst period, the fourth quarter of the previous fiscal year. Nevertheless, capital investment demand mainly in manufacturing sector remained low and there will be some time before an expansion in mechatronic products demand is seen.

In Japan, the SATO Group continued to offer proactive proposals to meet customer demands for streamlining, safety assurance and traceability using auto-identification technology in a number of sectors, notably healthcare, food processing, manufacturing and transportation, as well as development of new applications, all in an effort to expand sales. We have also been assertively strengthening our sales since the latter half of the previous fiscal year to customers in favorable business sectors as well as those less susceptible to economic conditions. This resulted in an increase in the number of orders, including those of significant size, realizing a recovery trend in net sales.

As a result, the SATO Group recorded a decrease of ¥1,882 million, or 12.2% in net sales from the same period of the previous fiscal year. However, net sales increased by ¥971 million, representing a 7.7% increase, and operating income increased by ¥456 million compared to the fourth quarter of the previous fiscal year.

Overseas, net sales declined by ¥1,780 million, or 28.8%, including a negative foreign exchange effect of ¥842 million, from the same period of the previous fiscal year in countries in the Americas, Europe, Asia and Oceania. However, compared to the fourth quarter of the previous fiscal year, an increase of ¥249 million in net sales, representing a 6.0% increase, and an increase of ¥827 million in operating income were achieved.

In terms of profits, the SATO Group unleashed its full capacity in all regions to further reduce costs and find savings in various business expenses to make lasting improvements in profit structure. For our European business, although fundamental structural reforms geared towards a return to profitability were started, real effects from our action plans are not expected to materialize until the latter half of the fiscal year.

As a result of the foregoing activities, net sales in the first three months ended June 30, 2009, declined by 17.0% from the same period of the previous fiscal year to ¥17,937 million; operating income declined by 83.5% to ¥173 million; ordinary income declined by 80.3% to ¥233 million;

and net income declined by 88.5% to ¥69 million. However, a comparison with the fourth quarter of the previous fiscal year reveals an increase of ¥1,221 million in net sales and ¥1,304 million in operating income.

Please note that the average exchange rates of the yen against the US dollar and the euro during the three months were ¥97.36 (down ¥7.19 compared with the same period of the previous fiscal year) and ¥132.66 (down ¥30.78), respectively.

By segment, the Group reported the following:

By business segment

a. Mechatronic products business

Net sales declined by 23.4% to ¥6,727 million; operating income declined by 94.8% to ¥22 million, compared to the same period of the previous fiscal year.

b. Supply products business

Net sales declined by 12.6% to ¥11,209 million; operating income declined by 75.6% to ¥150 million, compared to the same period of the previous fiscal year.

By geographical segment

a. Japan

Net sales declined by 12.2% to ¥13,537 million; operating income declined by 50.9% to ¥513 million, compared to the same period of the previous fiscal year.

b. North America

Net sales declined by 23.6% to ¥1,608 million; operating income declined by 47.6% to ¥60 million, compared to the same period of the previous fiscal year.

c. Europe

Net sales declined by 37.0% to ¥1,666 million; an operating loss of ¥219 million was recorded compared to an operating income of ¥114 million in the same period of the previous fiscal year.

d. Asia and Oceania

Net sales declined by 21.1% to ¥1,124 million; an operating loss of ¥167 million was recorded compared to an operating loss of ¥114 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 ¥62,333 million, an increase of ¥640 million compared to the end of the previous fiscal year. This was primarily the result of increases in notes and accounts receivable-trade, and cash and deposits.

Net assets were ¥35,582 million, a ¥335 million decrease due to the payment of dividends from shareholders' equity.

Cash flows

At the end of the first three months, cash and cash equivalents (referred to below as "cash") stood at ¥11,321 million, an increase of ¥506 million compared to the end of the previous fiscal year.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥1,099 million.

The increase in cash reflected principally income before income taxes and minority interests of ¥208 million, a decrease of ¥587 million in inventories and an increase of ¥441 million in notes and accounts payable-trade. Contributing to a decrease in cash were a ¥133 million increase in notes and accounts receivable-trade, and a ¥396 million decrease in accounts payable-other.

Net cash used in investing activities

Net cash used in investing activities totaled ¥446 million.

This resulted primarily from an expenditure of ¥140 million to purchase of property, plant and equipment.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥215 million.

This primarily reflected cash dividends paid of ¥471 million.

3. Qualitative information on consolidated forecasts

Regarding consolidated forecasts for the six months ending September 30, 2009, because of the better-than-expected recovery in demand for supply products thanks to a round of inventory adjustments and production recovery, as well as an increase in inquiries for mechatronic products business developments, the SATO Group expects sales to exceed forecasts. In addition, since efforts to reduce costs and find savings in various business expenses have continued to contribute to earnings, we also expect forecasts for operating income, ordinary income and net income to surpass those previously announced.

Regarding annual consolidated forecasts, since market trends and business conditions for the latter half of the fiscal year and beyond are yet to be determined, the initially announced figures are left unchanged.

Revision of consolidated forecasts for the first six months of March 2010 term (from April 1, 2009 to September 30, 2009)

	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)
Previous forecasts (A)	35,000	200	0	(500)	(16.44)
Revised forecasts (B)	36,000	400	400	0	0
(B-A)	1,000	200	400	500	-
Change (%)	2.9	100.0	-	-	-
(Reference) Actual results of the first six months ended September 30, 2009	42,768	1,784	1,754	514	16.82

The forecasts were prepared on the basis of information obtainable at present; a variety of factors could cause actual results to greatly differ from the forecasts.

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 and special accounting for preparing the quarterly consolidated financial statements

Simplified accounting methods

- 1) Inventory valuation method

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 at the settlement of accounts of the previous consolidated fiscal year because it has been recognized that no material changes have occurred in the business and other environments and in temporary differences or other events.

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

Not applicable

5. Consolidated financial statements

(1) Consolidated balance sheets

Millions of yen	June 30, 2009	March 31, 2009 (Summary)
Assets		
Current assets		
Cash and deposits	11,229	10,726
Notes and accounts receivable-trade	15,564	15,304
Short-term investment securities	92	88
Merchandise and finished goods	6,788	7,249
Work in process	155	135
Raw materials and supplies	1,736	1,788
Other	2,269	1,901
Allowance for doubtful accounts	(297)	(282)
Total current assets	37,537	36,912
Noncurrent assets		
Property, plant and equipment	15,562	15,815
Intangible assets		
Goodwill	430	420
Other	1,580	1,613
Total intangible assets	2,011	2,034
Investments and other assets	7,221	6,931
Total noncurrent assets	24,795	24,780
Total assets	62,333	61,692
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,496	4,013
Short-term loans payable	3,754	3,483
Accounts payable-other	9,675	10,297
Income taxes payable	309	192
Provision	160	114
Other	3,597	3,183
Total current liabilities	21,993	21,285
Noncurrent liabilities		
Long-term loans payable	2,000	2,000
Provision for retirement benefits	1,733	1,613
Other	1,024	876
Total noncurrent liabilities	4,757	4,489
Total liabilities	26,751	25,774

Millions of yen	June 30, 2009	March 31, 2009 (Summary)
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	28,097	28,539
Treasury stock	(3,457)	(3,457)
Total shareholders' equity	36,769	37,213
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	12	8
Foreign currency translation adjustment	(1,299)	(1,403)
Total valuation and translation adjustments	(1,287)	(1,394)
Subscription rights to shares	92	93
Minority interests	6	6
Total net assets	35,582	35,918
Total liabilities and net assets	62,333	61,692

(2) Consolidated statements of income

Millions of yen	Three months ended June 30, 2008	Three months ended June 30, 2009
Net sales	21,600	17,937
Cost of sales	12,444	10,488
Gross profit	9,155	7,449
Selling, general and administrative expenses	8,108	7,275
Operating income	1,047	173
Non-operating income		
Interest income	11	8
Dividends income	3	1
Foreign exchange gains	237	86
Other	47	38
Total non-operating income	300	135
Non-operating expenses		
Interest expenses	32	29
Loss on valuation of swaps	93	35
Other	37	9
Total non-operating expenses	163	74
Ordinary income	1,184	233
Extraordinary income		
Gain on sales of noncurrent assets	0	1
Gain on bad debts recovered	-	12
Other	1	2
Total extraordinary income	1	15
Extraordinary loss		
Restructuring loss	-	35
Loss on prior period adjustment	26	-
Loss on retirement of noncurrent assets	1	4
Loss on sales of noncurrent assets	2	0
Impairment loss	2	-
Total extraordinary losses	32	40
Income before income taxes and minority interests	1,152	208
Income taxes-current	571	275
Income taxes-deferred	(19)	(136)
Total income taxes	552	139
Minority interests in income	0	0
Net income	599	69

(3) Consolidated statements of cash flows

Millions of yen	Three months ended June 30, 2008	Three months ended June 30, 2009
Net cash provided by (used in) operating activities		
Income before income taxes	1,152	208
Depreciation and amortization	619	591
Amortization of goodwill	55	32
Loss (gain) on sales of noncurrent assets	2	(1)
Loss on retirement of noncurrent assets	1	4
Increase (decrease) in provision	(39)	42
Increase (decrease) in allowance for doubtful accounts	8	1
Increase (decrease) in provision for retirement benefits	(70)	61
Interest and dividends income	(14)	(10)
Interest expenses	32	29
Foreign exchange losses (gains)	(310)	(123)
Decrease (increase) in notes and accounts receivable-trade	(37)	(133)
Decrease (increase) in inventories	811	587
Increase (decrease) in notes and accounts payable-trade	(1,140)	441
Increase (decrease) in accounts payable-other	1,295	(396)
Other, net	96	(78)
Subtotal	2,463	1,257
Interest and dividends income received	14	10
Interest expenses paid	(32)	(27)
Income taxes paid	(653)	(141)
Net cash provided by (used in) operating activities	1,791	1,099
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(426)	(140)
Proceeds from sales of property, plant and equipment	3	1
Purchase of intangible assets	(20)	(124)
Other, net	(69)	(183)
Net cash provided by (used in) investing activities	(514)	(446)

Millions of yen	Three months ended June 30, 2008	Three months ended June 30, 2009
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(490)	269
Repayment of long-term loans payable	(2)	-
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(474)	(471)
Other, net	-	(13)
Net cash provided by (used in) financing activities	(968)	(215)
Effect of exchange rate change on cash and cash equivalents	277	69
Net increase (decrease) in cash and cash equivalents	586	506
Cash and cash equivalents at beginning of period	11,035	10,814
Cash and cash equivalents at end of period	11,621	11,321

(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, 2009					
Sales					
External customer sales	6,727	11,209	17,937	(-)	17,937
Intersegment transactions and transfer	-	-	-	(-)	-
Total	6,727	11,209	17,937	(-)	17,937
Operating income	22	150	173	(-)	173
Three months ended June 30, 2008					
Sales					
External customer sales	8,778	12,822	21,600	(-)	21,600
Intersegment transactions and eliminations	-	-	-	(-)	-
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 and hand labelers
 - b. Supply products business: labels/tags for electronic printers, labels for hand labelers, IC tags/labels, stickers, tickets, ribbons and 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, 2009							
Sales							
External customer sales	13,537	1,608	1,666	1,124	17,937	-	17,937
Intersegment sales	284	25	58	1,309	1,678	(1,678)	-
Total	13,822	1,634	1,725	2,433	19,615	(1,678)	17,937
Operating income (loss)	513	60	(219)	(167)	186	(13)	173
Three months ended June 30, 2008							
Sales							
External customer sales	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

Millions of yen	Three months ended June 30, 2008		Three months ended June 30, 2009	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	2,106	9.8	1,608	9.0
Europe	2,647	12.3	1,666	9.3
Asia and others	1,426	6.6	1,124	6.3
Total	6,180	28.6	4,399	24.5
Consolidated sales	21,600		17,937	

(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 and etc.
 - (3) Asia and others: Malaysia, Singapore, Thailand, China, Australia and 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

No items to report due to lack of significant changes