

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

November 12, 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: November 13, 2009
 Date of commencement of dividend payments: December 11, 2009

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

(1) Consolidated financial results (cumulative)

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

Six months ended	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
September 30, 2009	36,482	(14.7)	769	(56.9)	841	(52.0)
September 30, 2008	42,768	(1.8)	1,784	(25.3)	1,754	(24.2)

Six months ended	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
September 30, 2009	264	(48.6)	8.80	-
September 30, 2008	514	(45.8)	16.82	-

(2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
September 30, 2009	62,108	35,199	56.5	1,165.70
March 31, 2009	61,692	35,918	58.1	1,189.50

(N.B.) Total equity:

As of September 30, 2009: ¥35,101 million

As of March 31, 2009: ¥35,818 million

2. Dividends

	Annual dividend per share				
	First quarter	Second quarter	Third quarter	End of term	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
March 31, 2009	-	16.00	-	17.00	33.00
March 31, 2010	-	16.00			
March 31, 2010 (Forecast)			-	17.00	33.00

(Note) Revisions of projected dividends during the quarter 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)
Annual	74,000	(5.3)	1,800	146.5	1,600	349.3	500	(75.6)	16.60

(Note) Revisions of consolidated forecasts during the quarter 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 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: 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 September 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 September 30, 2009: 1,889,483 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 six months):

Six months ended September 30, 2009: 30,111,797 shares

Six months ended September 30, 2008: 30,613,130 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 six months ended September 30, 2009, the economic environment encompassing the SATO Group saw partial moves toward a recovery as some industries are going forward with inventory adjustments, among other factors. Despite this, constrictions on capital investment as well as employment and wages remain and personal consumption remains weak overall leading us to project the continuation of obscurities in the future economy. Under such an economic environment, with indications such as a recovery in demand for supply products in some regions and business sectors thanks to production recovery and 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, a recovery in capital investment demand mainly in the manufacturing sector remained sluggish 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 traceability and streamlined operations by providing “precision, labor savings, resource saving” using auto-identification technology in a number of sectors, notably food processing, manufacturing, transportation and healthcare, as well as development of new applications, all in an effort to expand sales. We have also been assertively developing our sales efforts since the latter half of the previous fiscal year to customers in favorable business sectors and less susceptible to economic conditions as well as those related to the public sector. This resulted in an increase in the number of orders, including those of significant size, realizing a recovery trend in net sales. Net sales in Japan, which recovered in the first quarter, continued to do so in the second quarter under review and, although gradual, results from sales expansion efforts that include opening new markets are materializing. (The first quarter increased 7.7% compared to the fourth quarter of the previous fiscal year and the second quarter under review increased 3.4% compared to the first quarter.)

Overseas, net sales declined ¥3,420 million, including a negative foreign exchange effect of ¥1,763 million, from the same period of the previous fiscal year in countries in the Americas, Europe, Asia and Oceania. However, with the implementation of sales expansion efforts in each region, a recovery trend is surfacing in the second quarter under review, continuing from the first quarter.

In terms of profits, as net sales decreased, the SATO Group unleashed its full capacity in all regions to enhance productivity, reduce manufacturing cost and find savings in various business expenses resulting in lasting improvements in profit structure. Above all, in our European business, where fundamental structural reforms are taking place, already effects from fixed cost reductions are coming to light since the second quarter under review, and from the latter half of

the fiscal year, we expect real effects to arise in earnest. Also, at the end of the first half of the fiscal year, the overseas administrative functions in Singapore were integrated in the headquarters. In the future, we aim to maximize sales profit by strengthening the management of sales subsidiaries and using management resources effectively.

As a result of the foregoing activities, net sales in the first six months ended September 30, 2009, declined by 14.7% from the same period of the previous fiscal year to ¥36,482 million; operating income declined by 56.9% to ¥769 million; ordinary income declined by 52.0% to ¥841 million; and net income declined by 48.6% to ¥264 million.

Please note that the average exchange rates of the yen against the US dollar and the euro during the six months were ¥95.53 (down ¥10.59 compared with the same period of the previous fiscal year) and ¥133.21 (down ¥29.58), respectively.

By segment, the Group reported the following:

By business segment

a. Mechatronic products business

Net sales declined by 20.4% to ¥13,945 million; operating income declined by 61.6% to ¥278 million, compared to the same period of the previous fiscal year.

b. Supply products business

Net sales declined by 10.7% to ¥22,537 million; operating income declined by 53.7% to ¥491 million, compared to the same period of the previous fiscal year.

By geographical segment

a. Japan

Net sales declined by 9.4% to ¥27,529 million; operating income declined by 42.0% to ¥1,203 million, compared to the same period of the previous fiscal year.

b. North America

Net sales declined by 25.8% to ¥3,178 million; operating income declined by 51.2% to ¥126 million, compared to the same period of the previous fiscal year.

c. Europe

Net sales declined by 33.2% to ¥3,377 million; an operating loss of ¥313 million was recorded compared to an operating loss of ¥174 million in the same period of the previous fiscal year.

d. Asia and Oceania

Net sales declined by 21.1% to ¥2,398 million; an operating loss of ¥258 million was recorded compared to an operating loss of ¥168 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 six months were ¥62,108 million, an increase of ¥415 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 ¥35,199 million, a ¥718 million decrease due to the payment of dividends from shareholders' equity.

Cash flows

At the end of the first six months, cash and cash equivalents (referred to below as "cash") stood at ¥12,353 million, an increase of ¥1,538 million compared to the end of the previous fiscal year.

Net cash provided by operating activities

Net cash provided by operating activities amounted to ¥2,964 million.

The increase in cash reflected principally income before income taxes and minority interests of ¥708 million, a decrease of ¥1,114 million in inventories and an increase of ¥597 million in notes and accounts payable-trade. Contributing to a decrease in cash were a ¥588 million increase in notes and accounts receivable-trade, and ¥151 million in income taxes paid.

Net cash used in investing activities

Net cash used in investing activities totaled ¥1,033 million.

This resulted primarily from an expenditure of ¥590 million to purchase of property, plant and equipment.

Net cash used in financing activities

Net cash used in financing activities amounted to ¥292 million.

This primarily reflected cash dividends paid of ¥510 million.

3. Qualitative information on consolidated forecasts

Although we foresee continuing obscurity in the market environment in the latter half of the fiscal year, in light of conditions during the first six months, the SATO Group is revising its annual consolidated forecasts for the March 2010 term as follows.

Revision of the annual consolidated forecasts for March 2010 term (from April 1, 2009 to March 31, 2010)

	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)	73,000	1,500	1,200	0	0.00
Revised forecasts (B)	74,000	1,800	1,600	500	16.60
(B-A)	1,000	300	400	500	-
Change (%)	1.4	20.0	33.3	-	-
(Reference) Actual results of the fiscal year ended March 31, 2009	78,163	730	356	2,050	67.40

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	September 30, 2009	March 31, 2009 (Summary)
Assets		
Current assets		
Cash and deposits	12,246	10,726
Notes and accounts receivable-trade	15,948	15,304
Short-term investment securities	107	88
Merchandise and finished goods	6,222	7,249
Work in process	132	135
Raw materials and supplies	1,527	1,788
Other	1,577	1,901
Allowance for doubtful accounts	(283)	(282)
Total current assets	37,478	36,912
Noncurrent assets		
Property, plant and equipment	15,493	15,815
Intangible assets		
Goodwill	429	420
Other	1,434	1,613
Total intangible assets	1,863	2,034
Investments and other assets	7,272	6,931
Total noncurrent assets	24,629	24,780
Total assets	62,108	61,692
Liabilities		
Current liabilities		
Notes and accounts payable-trade	4,642	4,013
Short-term loans payable	3,513	3,483
Accounts payable-other	10,013	10,297
Income taxes payable	648	192
Provision	123	114
Other	3,016	3,183
Total current liabilities	21,957	21,285
Noncurrent liabilities		
Long-term loans payable	2,000	2,000
Provision for retirement benefits	1,710	1,613
Other	1,240	876
Total noncurrent liabilities	4,951	4,489
Total liabilities	26,909	25,774

Millions of yen	September 30, 2009	March 31, 2009 (Summary)
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	28,292	28,539
Treasury stock	(3,457)	(3,457)
Total shareholders' equity	36,965	37,213
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8	8
Foreign currency translation adjustment	(1,872)	(1,403)
Total valuation and translation adjustments	(1,864)	(1,394)
Subscription rights to shares	91	93
Minority interests	6	6
Total net assets	35,199	35,918
Total liabilities and net assets	62,108	61,692

(2) Consolidated statements of income

Millions of yen	Six months ended September 30, 2008	Six months ended September 30, 2009
Net sales	42,768	36,482
Cost of sales	24,737	21,273
Gross profit	18,030	15,208
Selling, general and administrative expenses	16,246	14,439
Operating income	1,784	769
Non-operating income		
Interest income	37	17
Dividends income	3	1
Foreign exchange gains	-	73
Valuation gain from swap transaction	25	-
Other	94	83
Total non-operating income	160	175
Non-operating expenses		
Interest expenses	78	65
Foreign exchange losses	18	-
Other	93	36
Total non-operating expenses	191	102
Ordinary income	1,754	841
Extraordinary income		
Gain on sales of noncurrent assets	3	1
Gain on bad debts recovered	-	11
Gain on prior period adjustment	-	43
Other	1	3
Total extraordinary income	4	60
Extraordinary loss		
Restructuring loss	20	142
Loss on prior period adjustment	26	-
Loss on retirement of noncurrent assets	6	11
Loss on sales of noncurrent assets	2	4
Impairment loss	2	26
Other	-	9
Total extraordinary losses	58	194
Income before income taxes and minority interests	1,700	708
Income taxes-current	1,211	646
Income taxes-deferred	(27)	(203)
Total income taxes	1,184	442
Minority interests in income	1	0
Net income	514	264

(3) Consolidated statements of cash flows

Millions of yen	Six months ended September 30, 2008	Six months ended September 30, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,700	708
Depreciation and amortization	1,246	1,227
Impairment loss	-	26
Amortization of goodwill	120	66
Loss (gain) on sales of noncurrent assets	(0)	2
Loss on retirement of noncurrent assets	6	11
Loss on business restructuring	-	142
Increase (decrease) in provision	9	10
Increase (decrease) in allowance for doubtful accounts	6	(6)
Increase (decrease) in provision for retirement benefits	(69)	81
Interest and dividends income	(41)	(18)
Interest expenses	78	65
Foreign exchange losses (gains)	15	20
Decrease (increase) in notes and accounts receivable-trade	319	(588)
Decrease (increase) in inventories	1,226	1,114
Increase (decrease) in notes and accounts payable-trade	(1,302)	597
Increase (decrease) in accounts payable-other	1,012	(45)
Other, net	187	(140)
Subtotal	4,517	3,275
Interest and dividends income received	41	18
Interest expenses paid	(78)	(65)
Payments for business restructuring	-	(112)
Income taxes paid	(831)	(151)
Net cash provided by (used in) operating activities	3,648	2,964
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(970)	(590)
Proceeds from sales of property, plant and equipment	33	15
Purchase of intangible assets	(144)	(206)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(36)
Other, net	(10)	(214)
Net cash provided by (used in) investing activities	(1,092)	(1,033)

Millions of yen	Six months ended September 30, 2008	Six months ended September 30, 2009
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,424)	64
Proceeds from long-term loans payable	500	-
Repayment of long-term loans payable	(5)	-
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(519)	(510)
Other, net	-	153
Net cash provided by (used in) financing activities	(1,450)	(292)
Effect of exchange rate change on cash and cash equivalents	(21)	(100)
Net increase (decrease) in cash and cash equivalents	1,084	1,538
Cash and cash equivalents at beginning of period	11,035	10,814
Cash and cash equivalents at end of period	12,119	12,353

(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
Six months ended September 30, 2009					
Sales					
External customer sales	13,945	22,537	36,482	-	36,482
Intersegment transactions and transfer	-	-	-	-	-
Total	13,945	22,537	36,482	-	36,482
Operating income	278	491	769	-	769
Six months ended September 30, 2008					
Sales					
External customer sales	17,525	25,242	42,768	-	42,768
Intersegment transactions and transfer	-	-	-	-	-
Total	17,525	25,242	42,768	-	42,768
Operating income	723	1,061	1,784	-	1,784

(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:

- Mechatronic products business: electronic printers, labeling robots, hand labelers and maintenance services
- 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
Six months ended September 30, 2009							
Sales							
External customer sales	27,529	3,178	3,377	2,398	36,482	-	36,482
Intersegment sales	621	34	109	2,623	3,389	(3,389)	-
Total	28,150	3,213	3,486	5,022	39,872	(3,389)	36,482
Operating income (loss)	1,203	126	(313)	(258)	758	10	769
Six months ended September 30, 2008							
Sales							
External customer sales	30,394	4,283	5,052	3,037	42,768	-	42,768
Intersegment sales	915	20	155	3,850	4,940	(4,940)	-
Total	31,309	4,303	5,207	6,887	47,709	(4,940)	42,768
Operating income (loss)	2,074	259	(174)	(168)	1,991	(206)	1,784

(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	Six months ended September 30, 2008		Six months ended September 30, 2009	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	4,283	10.0	3,178	8.7
Europe	5,052	11.8	3,377	9.3
Asia and others	3,037	7.1	2,398	6.6
Total	12,374	28.9	8,953	24.5
Consolidated sales	42,768		36,482	

(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

Not applicable