

# Third Quarter Kessan Report for the March 2010 Term (Consolidated)

February 5, 2010

## 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

Please address all communications to: Hiroshi Saito, Senior Executive Officer, General  
Manager, Corporate Planning & Administration  
Division  
Phone: 03-5789-2500

Scheduled submission date for quarterly securities report: February 10, 2010

Date of commencement of dividend payments: —

### 1. Consolidated operating results for the first nine months of the year ending March 31, 2010 (from April 1, 2009 to December 31, 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)	%
Nine months ended						
December 31, 2009	56,044	(8.8)	1,792	(3.7)	1,706	24.3
December 31, 2008	61,447	-	1,861	-	1,372	-

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
Nine months ended				
December 31, 2009	651	-	21.65	-
December 31, 2008	(191)	-	(6.28)	-

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
As of				
December 31, 2009	63,868	35,538	55.5	1,176.98
March 31, 2009	61,692	35,918	58.1	1,189.50

(N.B.) Total equity:

As of December 31, 2009: ¥35,440 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	75,000	(4.0)	2,300	215.0	2,100	489.7	800	(61.0)	26.57

(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 December 31, 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 December 31, 2009: 1,889,749 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 nine months):

Nine months ended December 31, 2009: 30,111,694 shares

Nine months ended December 31, 2008: 30,523,116 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 nine months ended December 31, 2009, the economic environment encompassing the SATO Group was pulled out of the global recession present since the latter half of the previous fiscal year as it moved toward an overall recovery thanks to the effects of government measures implemented by major countries and economic improvements overseas particularly in Asia.

Under such an economic environment, with a remarkable recovery in demand for supply products in some regions and business sectors thanks to a recovery in production and a round of inventory adjustments, goods have begun to move again. 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. However, there are indications of a gradual increase in demand toward streamlining in step with the recovery in production activity.

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 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 clear recovery trend in net sales. Regarding net sales in Japan, supply products for the third quarter under review grew immensely by 13.3% compared to the most recent quarter as continued progress mostly in supply products was seen in the food sector and the recovery trend in the distribution sector was remarkable. Overseas, net sales in the third quarter under review increased from the same period of the previous fiscal year for the first time in two years as the recovery trend continuing from the first and second quarters became clearer thanks to sales expansion efforts in countries in the Americas, Europe, Asia and Oceania.

In terms of profits, 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. In Japan, we streamlined selling, general and administrative expenses and secured profits higher than projected. Overseas, we worked on improving earnings particularly in Europe, where structural reforms are taking place, and in Asia and Oceania, which integrated the overseas administrative functions of Singapore in the headquarters. These efforts resulted in the achievement of a profit on a quarterly basis for the first time since the first quarter ended June 30, 2008.

On the whole, the third quarter under review saw consolidated sales exceed that of the same period of the previous fiscal year for the first time in one year and consolidated operating income recovered to a level close to that of the first quarter ended June 30, 2008 (13 times the amount recorded in the third quarter of the previous fiscal year) thus realizing results above projections thanks to efforts at increasing performance with respect to both sales and earnings.

As a result of the foregoing activities, net sales in the first nine months ended December 31, 2009, declined by 8.8% from the same period of the previous fiscal year to ¥56,044 million; operating income declined by 3.7% to ¥1,792 million; ordinary income increased by 24.3% to ¥1,706 million; and net income was ¥651 million (compared to a net loss of ¥191 million in the same period of the previous fiscal year).

By segment, the Group reported the following:

***By business segment***

a. Mechatronic products business

Net sales declined by 13.8% to ¥20,874 million; operating income increased by 3.2% to ¥512 million, compared to the same period of the previous fiscal year.

b. Supply products business

Net sales declined by 5.5% to ¥35,170 million; operating income declined by 6.2% to ¥1,279 million, compared to the same period of the previous fiscal year.

***By geographical segment***

a. Japan

Net sales declined by 4.8% to ¥42,487 million; operating income declined by 23.5% to ¥2,162 million, compared to the same period of the previous fiscal year.

b. North America

Net sales declined by 22.4% to ¥4,614 million; operating income declined by 24.4% to ¥169 million, compared to the same period of the previous fiscal year.

c. Europe

Net sales declined by 22.6% to ¥5,223 million; an operating loss of ¥378 million was recorded compared to an operating loss of ¥624 million in the same period of the previous fiscal year.

d. Asia and Oceania

Net sales declined by 10.2% to ¥3,718 million; an operating loss of ¥142 million was recorded compared to an operating loss of ¥246 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 nine months were ¥63,868 million, an increase of ¥2,175 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 ¥35,538 million, a ¥379 million decrease due to the payment of dividends from shareholders' equity.

### ***Cash flows***

At the end of the first nine months, cash and cash equivalents (referred to below as “cash”) stood at ¥12,480 million, an increase of ¥1,665 million compared to the end of the previous fiscal year.

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

Net cash provided by operating activities amounted to ¥3,733 million.

The increase in cash reflected principally income before income taxes and minority interests of ¥1,546 million, a decrease of ¥1,007 million in inventories and an increase of ¥930 million in notes and accounts payable-trade. Contributing to a decrease in cash were a ¥2,261 million increase in notes and accounts receivable-trade, and ¥717 million in income taxes paid.

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

Net cash used in investing activities totaled ¥1,255 million.

This resulted primarily from expenditures of ¥640 million for purchase of property, plant and equipment and of ¥444 million for purchase of intangible assets.

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

Net cash used in financing activities amounted to ¥808 million.

This primarily reflected cash dividends paid of ¥984 million.

### **3. Qualitative information on consolidated forecasts**

In light of conditions during the first nine 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)	74,000	1,800	1,600	500	16.60
Revised forecasts (B)	75,000	2,300	2,100	800	26.57
(B-A)	1,000	500	500	300	-
Change (%)	1.4	27.8	31.3	60.0	-
(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 in case where 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	December 31, 2009	March 31, 2009 (Summary)
<b>Assets</b>		
Current assets		
Cash and deposits	12,345	10,726
Notes and accounts receivable-trade	17,681	15,304
Short-term investment securities	135	88
Merchandise and finished goods	6,408	7,249
Work in process	111	135
Raw materials and supplies	1,581	1,788
Other	1,416	1,901
Allowance for doubtful accounts	(287)	(282)
Total current assets	39,393	36,912
Noncurrent assets		
Property, plant and equipment	14,544	15,815
Intangible assets		
Goodwill	402	420
Other	1,538	1,613
Total intangible assets	1,940	2,034
Investments and other assets	7,989	6,931
Total noncurrent assets	24,474	24,780
Total assets	63,868	61,692
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	4,999	4,013
Short-term loans payable	3,567	3,483
Accounts payable-other	10,962	10,297
Income taxes payable	424	192
Provision	85	114
Other	3,046	3,183
Total current liabilities	23,085	21,285
Noncurrent liabilities		
Long-term loans payable	2,000	2,000
Provision for retirement benefits	1,695	1,613
Other	1,548	876
Total noncurrent liabilities	5,243	4,489
Total liabilities	28,329	25,774

Millions of yen	December 31, 2009	March 31, 2009 (Summary)
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	28,198	28,539
Treasury stock	(3,457)	(3,457)
Total shareholders' equity	36,870	37,213
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5	8
Foreign currency translation adjustment	(1,435)	(1,403)
Total valuation and translation adjustments	(1,430)	(1,394)
Subscription rights to shares	90	93
Minority interests	7	6
Total net assets	35,538	35,918
Total liabilities and net assets	63,868	61,692



## (2) Consolidated statements of income

Millions of yen	Nine months ended December 31, 2008	Nine months ended December 31, 2009
Net sales	61,447	56,044
Cost of sales	35,611	32,603
Gross profit	25,836	23,440
Selling, general and administrative expenses	23,974	21,648
Operating income	1,861	1,792
Non-operating income		
Interest income	47	23
Dividends income	4	1
Purchase discounts	-	33
Valuation gain from swap transaction	240	-
Other	138	92
Total non-operating income	430	151
Non-operating expenses		
Interest expenses	112	93
Foreign exchange losses	685	101
Other	122	43
Total non-operating expenses	920	237
Ordinary income	1,372	1,706
Extraordinary income		
Gain on sales of noncurrent assets	3	2
Gain on bad debts recovered	-	12
Gain on prior period adjustment	-	78
Other	1	10
Total extraordinary income	4	104
Extraordinary loss		
Restructuring loss	18	205
Loss on prior period adjustment	28	-
Loss on retirement of noncurrent assets	5	14
Loss on sales of noncurrent assets	6	8
Impairment loss	2	26
Other	1	10
Total extraordinary losses	62	264
Income before income taxes and minority interests	1,314	1,546
Income taxes-current	1,474	1,006
Income taxes-deferred	30	(113)
Total income taxes	1,504	893
Minority interests in income	1	0
Net income (loss)	(191)	651

### (3) Consolidated statements of cash flows

Millions of yen	Nine months ended December 31, 2008	Nine months ended December 31, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	1,314	1,546
Depreciation and amortization	1,872	1,821
Impairment loss	-	26
Amortization of goodwill	168	99
Loss (gain) on sales of noncurrent assets	3	5
Loss on retirement of noncurrent assets	5	14
Loss on business restructuring	-	205
Increase (decrease) in provision	132	(29)
Increase (decrease) in allowance for doubtful accounts	59	(11)
Increase (decrease) in provision for retirement benefits	(47)	60
Interest and dividends income	(52)	(25)
Interest expenses	112	93
Foreign exchange losses (gains)	681	9
Decrease (increase) in notes and accounts receivable-trade	881	(2,261)
Decrease (increase) in inventories	933	1,007
Increase (decrease) in notes and accounts payable-trade	(1,166)	930
Increase (decrease) in accounts payable-other	1,132	873
Other, net	(315)	345
Subtotal	5,714	4,712
Interest and dividends income received	52	17
Interest expenses paid	(112)	(93)
Payments for business restructuring	-	(186)
Income taxes paid	(1,788)	(717)
Net cash provided by (used in) operating activities	3,865	3,733
Net cash provided by (used in) investing activities		
Purchase of investment securities	(100)	-
Purchase of property, plant and equipment	(1,461)	(640)
Proceeds from sales of property, plant and equipment	34	25
Purchase of intangible assets	(142)	(444)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(36)
Other, net	(15)	(159)
Net cash provided by (used in) investing activities	(1,684)	(1,255)

Millions of yen	Nine months ended December 31, 2008	Nine months ended December 31, 2009
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,460)	109
Proceeds from long-term loans payable	500	-
Repayment of long-term loans payable	(7)	-
Purchase of treasury stock	(503)	(0)
Cash dividends paid	(1,000)	(984)
Other, net	-	66
Net cash provided by (used in) financing activities	(2,472)	(808)
Effect of exchange rate change on cash and cash equivalents	(606)	(3)
Net increase (decrease) in cash and cash equivalents	(897)	1,665
Cash and cash equivalents at beginning of period	11,035	10,814
Cash and cash equivalents at end of period	10,137	12,480

#### (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
<b>Nine months ended December 31, 2009</b>					
Sales					
External customer sales	20,874	35,170	56,044	-	56,044
Intersegment transactions and transfer	-	-	-	-	-
Total	20,874	35,170	56,044	-	56,044
Operating income	512	1,279	1,792	-	1,792
<b>Nine months ended December 31, 2008</b>					
Sales					
External customer sales	24,219	37,228	61,447	-	61,447
Intersegment transactions and transfer	-	-	-	-	-
Total	24,219	37,228	61,447	-	61,447
Operating income	496	1,364	1,861	-	1,861

(Note)

- 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
<b>Nine months ended December 31, 2009</b>							
Sales							
External customer sales	42,487	4,614	5,223	3,718	56,044	-	56,044
Intersegment sales	1,627	69	167	3,887	5,751	(5,751)	-
Total	44,115	4,684	5,391	7,606	61,796	(5,751)	56,044
Operating income (loss)	2,162	169	(378)	(142)	1,810	(17)	1,792
<b>Nine months ended December 31, 2008</b>							
Sales							
External customer sales	44,619	5,942	6,744	4,139	61,447	-	61,447
Intersegment sales	1,387	33	232	5,477	7,129	(7,129)	-
Total	46,006	5,975	6,977	9,617	68,577	(7,129)	61,447
Operating income (loss)	2,827	223	(624)	(246)	2,180	(318)	1,861

(Notes)

- Countries and 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, Spain and Sweden
  - Asia and Oceania: Malaysia, Singapore, Thailand, China, Vietnam, Australia and New Zealand

### c. Overseas sales

Millions of yen	Nine months ended December 31, 2008		Nine months ended December 31, 2009	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales
North America	5,942	9.7	4,614	8.2
Europe	6,744	11.0	5,223	9.3
Asia and others	4,139	6.7	3,718	6.6
Total	16,827	27.4	13,556	24.2
Consolidated sales	61,447		56,044	

(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