# First Quarter Kessan Report for the March 2011 Term

## ＜Under Japanese GAAP＞ (Consolidated)

August 5, 2010

**SATO CORPORATION**


| | |
|---|---|
| Company code number: | 6287 (URL http://www.sato.co.jp) |
| Shares traded on: | TSE1 |
| Executive position of legal representative: | Koichi Nishida, President and CEO, Representative Corporate Executive Officer |
| Please address all communications to: | Akihiro Kushida, Executive Officer, General Manager, Corporate Planning & Administration Division<br>Phone: 03-5789-2500 |


Scheduled submission date for quarterly securities report: August 10, 2010
Date of commencement of dividend payments: —
Supplementary explanatory materials for quarterly results: Available
Holding of meeting to explain quarterly results (for analysts and institutional investors): Yes

## 1. Consolidated operating results for the first three months of the fiscal year ending March 31, 2011 (from April 1, 2010 to June 30, 2010)

### (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, 2010 | 19,291 | 7.5 | 901 | 420.9 | 773 | 231.3 |
| June 30, 2009 | 17,937 | (17.0) | 173 | (83.5) | 233 | (80.3) |

| | Net income | | Net income per share | Net income per share, fully diluted |
|---|---|---|---|---|
| Three months ended | (Millions of yen) | % | (Yen) | (Yen) |
| June 30, 2010 | 300 | 336.1 | 9.99 | – |
| June 30, 2009 | 69 | (88.5) | 2.29 | – |

### (2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| As of | (Millions of yen) | (Millions of yen) | % | (Yen) |
| June 30, 2010 | 65,578 | 35,159 | 53.5 | 1,164.48 |
| March 31, 2010 | 64,203 | 35,985 | 55.9 | 1,191.84 |

(N.B.) Total equity:
As of June 30, 2010: ¥35,063 million　　As of March 31, 2010: ¥35,887 million

## 2. Dividends

| | Annual dividends | | | | |
|---|---|---|---|---|---|
| | First quarter | Second quarter | Third quarter | End of term | Total |
| | (Yen) | (Yen) | (Yen) | (Yen) | (Yen) |
| March 31, 2010 | - | 16.00 | - | 17.00 | 33.00 |
| March 31, 2011 | - | | | | |
| March 31, 2011 (Forecast) | | 16.00 | - | 17.00 | 33.00 |

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

## 3. Consolidated forecasts for the fiscal year ending March 31, 2011 (from April 1, 2010 to March 31, 2011)

(Percent 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 | 38,000 | 4.2 | 1,600 | 108.0 | 1,400 | 66.4 | 600 | 126.5 | 19.93 |
| Annual | 80,000 | 6.8 | 3,700 | 43.7 | 3,400 | 52.1 | 1,400 | 79.2 | 46.49 |

(Note) Revisions of consolidated forecasts during the quarter under review: Yes

## 4. Others (For details, please refer to “Other information” on pages 5-6 of the attached materials)

(1) Changes in significant subsidiaries during the term: None

*(Note) Changes in specified subsidiaries resulting in the change in scope of consolidation during the quarter under review*

(2) Application of simplified accounting and special accounting: Yes

*(Note) Application of simplified accounting and special accounting for preparing the quarterly consolidated financial statements*

(3) Changes in accounting policies, procedures, and methods of presentation

1) Changes due to revisions to accounting standards: Yes

2) Changes due to other reasons: None

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

(4) Number of issued shares (common stock)

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

| | |
|---|---|
| As of June 30, 2010 | 32,001,169 shares |
| As of March 31, 2010 | 32,001,169 shares |

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

| | |
|---|---|
| As of June 30, 2010 | 1,890,193 shares |
| As of March 31, 2010 | 1,889,813 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, 2010 | 30,111,026 shares |
| Three months ended June 30, 2009 | 30,111,832 shares |

*** Indication about carrying-out of the quarterly review procedures**

*This quarterly Kessan Report is not subject to the quarterly review procedures based on the Financial Instruments and Exchange Act. As at the time of disclosure of this quarterly Kessan Report, the procedures to review quarterly financial statements based on the Financial Instruments and Exchange Act have not been completed.*

*** Explanation about the proper use of consolidated forecasts and other notes**

*Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Results may differ materially from the consolidated forecasts due to various factors.*

*Please refer to the section of "Qualitative information on consolidated forecasts" on pages 4-5 of the attached materials to the quarterly Kessan Report for the suppositions that form the assumptions for consolidated forecasts and cautions concerning the use thereof.*

# Attached Materials

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## 1. Qualitative Information on Consolidated Operating Results for the First Three Months

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

The Japanese economy during the first three months ended June 30, 2010 was boosted by progress regarding inventory adjustments and a robust Asian economy. Although the economy overall continued to recover mildly, we foresee continuing obscurity concerning the future due to, among other factors, the concerns over the financial systems of countries in Europe, the strong yen and the weak stock prices.

Under such an economic environment, the SATO Group has been experiencing a recovery in demand for supply products since the latter half of the previous fiscal year thanks to a recovery in production and a round of inventory adjustments. Also, with an eye on the trend of companies to achieve greater efficiency and rationalization, the SATO Group focused on uncovering demand for capital investment from mostly the manufacturing sector and conducted proposal-based sales centered on mechatronic products, and these efforts have gradually yielding results.

In Japan, effective the beginning of the current fiscal year, the SATO Group has established eight market-differentiated business units in Tokyo to further strengthen the Group's sales capabilities. The eight units are as follows: Retail, Factory Automation, Food Processing, Logistics, Health Care, Business Partners, Public Sector, and Card. Each unit energetically makes proposals by leveraging auto-identification technology and carries out marketing activities that will lead to new markets and development of new applications. Furthermore, the SATO Group is packaging success stories as proposal know-how and horizontally deploying sales expansion measures throughout all offices in Japan. As a result of foregoing activities, net sales showed a stronger trend of recover and net sales in Japan for the first three months recovered to ¥14,616 million, a rise of 8.0% year on year. Overseas, thanks to SATO Group expanding sales in countries in the Americas, Europe, Asia and Oceania and capitalizing on the growing demand in emerging countries of Asia, particularly China, overseas sales rose to ¥4,674 million (6.2% year on year), despite a decrease from foreign exchange fluctuation (negative effect of ¥258 million).

In terms of profits, the SATO Group unleashed its full capacity in all regions to continuously enhance productivity, reduce manufacturing cost and find savings in various business expenses resulting in steady 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, where we integrated the overseas administrative functions in Singapore to the headquarters. These efforts resulted in a significant improvement in the profitability of our overseas business.

As a result of the foregoing, net sales during the first three months ended June 30, 2010, increased by 7.5% from the same period of the previous fiscal year to ¥19,291 million; operating income increased by 420.9% to ¥901 million; ordinary income rose by 231.3% to ¥773 million; and net income increased by 336.1% to ¥300 million.

By segment, the Group reported the following:

a. Japan
   Net sales increased by 8.0% to ¥14,616 million; operating income rose by 59.0% to ¥817 million, compared to the same period of the previous fiscal year.

b. Americas
   Net sales increased by 0.2% to ¥1,612 million; operating income declined by 10.7% to ¥53 million, compared to the same period of the previous fiscal year.

c. Europe
   Net sales declined by 2.1% to ¥1,631 million; an operating loss of ¥41 million was recorded compared to an operating loss of ¥219 million in the same period of the previous fiscal year.

d. Asia and Oceania
   Net sales increased by 27.2% to ¥1,431 million; operating income was ¥66 million compared to an operating loss of ¥167 million in the same period of the previous fiscal year.

By product, the Group reported the following:

a. Net sales of mechatronic products increased by 3.6% to ¥6,971 million compared to the same period of the previous fiscal year.

b. Net sales of supply products increased by 9.9% to ¥12,319 million compared to 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 ¥65,578 million, an increase of ¥1,374 million compared to the end of the previous fiscal year. This was primarily the result of increase in property, plant and equipment. Net assets were ¥35,159 million, a ¥826 million decrease due to the payment of cash dividends from shareholders' equity and the decrease in foreign currency translation adjustment.

***Cash flows***

At the end of the first three months, cash and cash equivalents (referred to below as "cash") stood at ¥12,182 million, a decrease of ¥1,592 million compared to the end of the previous fiscal year.

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

Net cash provided by operating activities amounted to ¥295 million, a decrease of 73.1% compared to the cash provided in the same period of the previous fiscal year.

The increase in cash reflected principally income before income taxes and minority interests of ¥675 million, ¥504 million in depreciation and amortization, and an increase in accounts payable-other of ¥404 million. Contributing to a decrease in cash were a ¥195 million increase in notes and accounts receivable-trade, ¥133 million increase in inventories and ¥608 million in income taxes paid.

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

Net cash used in investing activities totaled ¥3,009 million, an increase of 573.6% compared to the cash used in the same period of the previous fiscal year.

This resulted primarily from an expenditure of ¥2,915 million to purchase of property, plant and equipment, including new office building for the new head office.

***Net cash provided by financing activities***

Net cash provided by financing activities totaled ¥1,473 million, compared to ¥215 million cash used by financing activities in the same period of the previous fiscal year.

This mainly reflected a net decrease of short-term loans payable of ¥65 million and proceeds from long-term loans payable of ¥2,000 million.

### (3) Qualitative information on consolidated forecasts

Regarding consolidated forecasts, in the first three months the SATO Group observed better-than-expected recovery in demand for supply products thanks to a production recovery and a round of inventory adjustments. In addition, the steady flow of inquiries for mechatronic products developments and the results of streamlining selling, general and administrative expenses contributed to revenues. On the other hand, there was a rapid appreciation of the yen over the first three months. Taking into consideration the effect of this exchange rate, we have revised the consolidated forecasts for the first six months and for the fiscal year ending March 31, 2011.

Consolidated forecasts for the first six months ending September 30, 2010

| | Current forecast | (Previous forecast) |
|---|---|---|
| Net sales | ¥38,000 million | (¥39,000 million) |
| Operating income | ¥1,600 million | (¥1,400 million) |
| Ordinary income | ¥1,400 million | (¥1,300 million) |
| Net income | ¥600 million | (¥700 million) |

Consolidated forecasts for the fiscal year ending March 31, 2011

| | Current forecast | (Previous forecast) |
|---|---|---|
| Net sales | ¥80,000 million | (¥80,000 million) |
| Operating income | ¥3,700 million | (¥3,500 million) |
| Ordinary income | ¥3,400 million | (¥3,300 million) |
| Net income | ¥1,400 million | (¥1,400 million) |

The average foreign exchange rates during the remaining nine months of the fiscal year ending March 31, 2011 assumed in the above forecast: US$ = ¥90 and Euro = ¥110.

(The assumption in the previous forecast: US$ = ¥90 and Euro = ¥125)

## 2. Other information

### (1) Summary of simplified accounting and special accounting

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 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.

### (2) Summary of changes in accounting policies, procedures, and methods of presentation

1. Changes in matters relating to accounting procedure standards

1) Application of accounting standard for asset retirement obligations

Effective from the first quarter under review, the Company adopted the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

The impact of this change on income or loss is immaterial.

2) Application of accounting standard for business combinations, etc.

Effective from the first quarter under review, the Company adopted the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), the “Partial amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23, December 26, 2008), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008), the “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, released on December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).

2. Changes in methods of presentation

Following the adoption of the “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009) based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), “income before minority interests” is included in the consolidated statements of income for the three months ended June 30, 2010.

## 3. Consolidated Financial Statements

### (1) Consolidated balance sheets

| Millions of yen | June 30, 2010 | March 31, 2010 (Summary) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 12,025 | 13,584 |
| Notes and accounts receivable-trade | 16,288 | 16,346 |
| Short-term investment securities | 156 | 189 |
| Merchandise and finished goods | 6,088 | 6,198 |
| Work in process | 95 | 114 |
| Raw materials and supplies | 1,558 | 1,548 |
| Other | 4,527 | 3,301 |
| Allowance for doubtful accounts | (145) | (159) |
| Total current assets | 40,595 | 41,125 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Land | 7,594 | 5,069 |
| Other, net | 9,828 | 9,925 |
| Total property, plant and equipment | 17,423 | 14,994 |
| Intangible assets | | |
| Goodwill | 324 | 369 |
| Other | 1,466 | 1,505 |
| Total intangible assets | 1,791 | 1,875 |
| Investments and other assets | 5,768 | 6,208 |
| Total noncurrent assets | 24,982 | 23,078 |
| Total assets | 65,578 | 64,203 |

| Millions of yen | June 30, 2010 | March 31, 2010 (Summary) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 4,512 | 4,666 |
| Short-term loans payable | 4,112 | 3,542 |
| Accounts payable-other | 11,305 | 10,817 |
| Income taxes payable | 333 | 660 |
| Provision | 172 | 152 |
| Other | 3,401 | 2,908 |
| Total current liabilities | 23,838 | 22,748 |
| Noncurrent liabilities | | |
| Long-term loans payable | 3,333 | 2,000 |
| Provision for retirement benefits | 1,638 | 1,719 |
| Other | 1,608 | 1,750 |
| Total noncurrent liabilities | 6,580 | 5,469 |
| Total liabilities | 30,418 | 28,218 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,331 | 6,331 |
| Capital surplus | 5,799 | 5,799 |
| Retained earnings | 28,116 | 28,327 |
| Treasury stock | (3,458) | (3,457) |
| Total shareholders' equity | 36,788 | 37,000 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 5 | 5 |
| Foreign currency translation adjustment | (1,730) | (1,118) |
| Total valuation and translation adjustments | (1,725) | (1,112) |
| Subscription rights to shares | 87 | 89 |
| Minority interests | 7 | 7 |
| Total net assets | 35,159 | 35,985 |
| Total liabilities and net assets | 65,578 | 64,203 |

## (2) Consolidated statements of income

| Millions of yen | Three months ended June 30, 2009 | Three months ended June 30, 2010 |
|---|---|---|
| Net sales | 17,937 | 19,291 |
| Cost of sales | 10,488 | 11,128 |
| Gross profit | 7,449 | 8,162 |
| Selling, general and administrative expenses | 7,275 | 7,260 |
| Operating income | 173 | 901 |
| Non-operating income | | |
| Interest income | 8 | 6 |
| Dividends income | 1 | 0 |
| Foreign exchange gains | 86 | - |
| Rent income | - | 22 |
| Other | 38 | 29 |
| Total non-operating income | 135 | 58 |
| Non-operating expenses | | |
| Interest expenses | 29 | 27 |
| Foreign exchange losses | - | 124 |
| Valuation loss from swap transaction | 35 | - |
| Other | 9 | 35 |
| Total non-operating expenses | 74 | 187 |
| Ordinary income | 233 | 773 |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 1 | 0 |
| Gain on bad debts recovered | 12 | - |
| Gain on reversal of subscription rights to shares | - | 1 |
| Other | 2 | - |
| Total extraordinary income | 15 | 2 |
| Extraordinary loss | | |
| Loss on retirement of noncurrent assets | 4 | 1 |
| Loss on sales of noncurrent assets | 0 | 0 |
| Restructuring loss | 35 | 9 |
| Office transfer expenses | - | 72 |
| Other | - | 16 |
| Total extraordinary losses | 40 | 99 |
| Income before income taxes and minority interests | 208 | 675 |
| Income taxes-current | 275 | 303 |
| Income taxes-deferred | (136) | 70 |
| Total income taxes | 139 | 374 |
| Income before minority interests | - | 301 |
| Minority interests in income | 0 | 0 |
| Net income | 69 | 300 |

## (3) Consolidated statements of cash flows

| Millions of yen | Three months ended June 30, 2009 | Three months ended June 30, 2010 |
|---|---|---|
| Net cash provided by (used in) operating activities | | |
| Income before income taxes and minority interests | 208 | 675 |
| Depreciation and amortization | 591 | 504 |
| Amortization of goodwill | 32 | 24 |
| Loss (gain) on sales of noncurrent assets | (1) | 0 |
| Loss on retirement of noncurrent assets | 4 | 1 |
| Increase (decrease) in provision | 42 | 25 |
| Increase (decrease) in allowance for doubtful accounts | 1 | (0) |
| Increase (decrease) in provision for retirement benefits | 61 | 2 |
| Interest and dividends income | (10) | (7) |
| Interest expenses | 29 | 27 |
| Foreign exchange losses (gains) | (123) | 334 |
| Decrease (increase) in notes and accounts receivable-trade | (133) | (195) |
| Decrease (increase) in inventories | 587 | (133) |
| Increase (decrease) in notes and accounts payable-trade | 441 | (93) |
| Increase (decrease) in accounts payable-other | (396) | 404 |
| Other, net | (78) | (644) |
| Subtotal | 1,257 | 923 |
| Interest and dividends income received | 10 | 6 |
| Interest expenses paid | (27) | (26) |
| Income taxes paid | (141) | (608) |
| Net cash provided by (used in) operating activities | 1,099 | 295 |
| Net cash provided by (used in) investing activities | | |
| Purchase of property, plant and equipment | (140) | (2,915) |
| Proceeds from sales of property, plant and equipment | 1 | 1 |
| Purchase of intangible assets | (124) | (32) |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | - | (59) |
| Other, net | (183) | (2) |
| Net cash provided by (used in) investing activities | (446) | (3,009) |

| Millions of yen | Three months ended June 30, 2009 | Three months ended June 30, 2010 |
|---|---|---|
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in short-term loans payable | 269 | (65) |
| Proceeds from long-term loans payable | - | 2,000 |
| Purchase of treasury stock | (0) | (0) |
| Cash dividends paid | (471) | (481) |
| Other, net | (13) | 21 |
| Net cash provided by (used in) financing activities | (215) | 1,473 |
| Effect of exchange rate change on cash and cash equivalents | 69 | (352) |
| Net increase (decrease) in cash and cash equivalents | 506 | (1,592) |
| Cash and cash equivalents at beginning of period | 10,814 | 13,774 |
| Cash and cash equivalents at end of period | 11,321 | 12,182 |

### (4) Note related to assumption of going-concern

Not applicable

### (5) Segment information

1. Overview of reportable segments

The reportable segments of SATO CORPORATION are constituent units of the Company whose separate financial information is obtainable. These segments are periodically examined by the Board of Directors for the purpose of deciding the allocation of management resources and evaluating the operating results.

In addition to developing its unique business model “DCS & Labeling,” by freely using auto-identification technology in Japan and overseas and adopting this model to meet the regional characteristics of each region, and manufacturing and selling mechatronic products and supply products, the SATO Group provides software and maintenance services and conducts business activities.

Under the current corporate system, overseas, the supervising company for each geographic region of the Americas, Europe, and Asia and Oceania, or in Japan, the Company, provides management guidance to the local companies belonging to the respective supervising company. At the same time, the Company and the supervising companies offer the local entities strategic proposals related to production or marketing, and in this way, lead and manage all the companies of the region that they supervise.

Accordingly, the Company makes its reportable segments the following four geographic regions: Japan, Americas, Europe, and Asia and Oceania. Each of these segments forms a regional base that forms a separate production and marketing system.

2. Information on net sales and profit or loss by reportable segment

Three months ended June 30, 2010 (from April 1, 2010 to June 30, 2010)

| Millions of yen | Japan | Americas | Europe | Asia and Oceania | Total |
|---|---|---|---|---|---|
| Net sales | | | | | |
| External customer sales | 14,616 | 1,612 | 1,631 | 1,431 | 19,291 |
| Intersegment sales and transfer | 1,074 | 26 | 65 | 1,443 | 2,610 |
| Total | 15,690 | 1,638 | 1,697 | 2,875 | 21,901 |
| Segment profit (loss) | 817 | 53 | (41) | 66 | 895 |

3. The total amount of profit or loss for reportable segments, the amount recorded on the consolidated statement of income, the difference, and the major breakdown of the difference (Matters related to difference adjustment)

| **Profit** | **Amount Millions of yen** |
|---|---|
| Reportable segments total | 895 |
| Intersegment eliminations | (18) |
| Amortization of goodwill | (22) |
| Adjustment of inventories | 44 |
| Other adjustment | 2 |
| Operating income on the consolidated statement of income | 901 |

4. Information on impairment loss of noncurrent assets, goodwill and negative goodwill, etc. by reportable segment

   Not applicable

(Additional information)

Effective from the first quarter under review, the Company adopted the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, March 27, 2009) and the “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008).

**(6) Notes in the event of material changes in amount of shareholders’ equity**

Not applicable