

# Kessan Report for the March 2010 Term (Consolidated)

May 7, 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: Hiroshi Saito, Senior Executive Officer, General  
 Manager, Corporate Planning & Administration  
 Division  
 Phone: 03-5789-2500  
 Date of regular General Meeting of Shareholders: June 18, 2010  
 Date of commencement of dividend payments: June 21, 2010  
 Scheduled submission date for annual securities report: June 21, 2010

### 1. Consolidated operating results for the fiscal year ended March 31, 2010 (from April 1, 2009 to March 31, 2010)

#### (1) Consolidated financial results

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

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2010	74,917	(4.2)	2,574	252.6	2,235	527.7	781	(61.9)
March 31, 2009	78,163	(11.0)	730	(86.5)	356	(92.5)	2,050	(0.6)

Fiscal year ended	Net income per share	Net income per share, fully diluted	Return on equity ratio	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	(Yen)	(Yen)	%	%	%
March 31, 2010	25.95	-	2.2	3.6	3.4
March 31, 2009	67.40	-	5.7	0.6	0.9

(N.B.) Equity in earnings or losses of affiliates:

Fiscal year ended March 31, 2010: -

Fiscal year ended March 31, 2009: -

#### (2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2010	64,203	35,985	55.9	1,191.84
March 31, 2009	61,692	35,918	58.1	1,189.50

(N.B.) Total equity:

As of March 31, 2010: ¥35,887 million

As of March 31, 2009: ¥35,818 million

### (3) Consolidated cash flows statement

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at end of period
Fiscal year ended	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
March 31, 2010	5,860	(2,093)	(826)	13,774
March 31, 2009	4,994	(2,217)	(2,476)	10,814

### 2. Dividends

	Annual dividend per share					Total dividends paid (Total)	Dividend payout ratio (consolidated)	Dividends to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
March 31, 2009	-	16.00	-	17.00	33.00	1,001	49.0	2.8
March 31, 2010	-	16.00	-	17.00	33.00	993	127.2	2.8
March 31, 2011 (Forecast)	-	16.00	-	17.00	33.00		71.0	

### 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)
Six months	39,000	6.9	1,400	82.0	1,300	54.5	700	164.3	23.25
Annual	80,000	6.8	3,500	35.9	3,300	47.6	1,400	79.2	46.49

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

1) Changes due to revisions to accounting standards: None

2) Changes due to other reasons: None

(3) Number of issued shares (common stock)

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

As of March 31, 2010: 32,001,169 shares

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

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

As of March 31, 2010: 1,889,813 shares

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

**(N.B.) Non-consolidated operating results**

**2. Non-consolidated operating results for the fiscal year ended March 31, 2010  
(from April 1, 2009 to March 31, 2010)**

**(1) Non-consolidated financial results**

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

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
March 31, 2010	56,357	0.5	2,008	10.8	1,837	(4.6)	1,062	-
March 31, 2009	56,096	(7.7)	1,813	(57.8)	1,925	(52.5)	(5,389)	-

Fiscal year ended	Net income per share	Net income per share, fully diluted
	(Yen)	(Yen)
March 31, 2010	35.29	-
March 31, 2009	(177.16)	-

**(2) Non-consolidated financial position**

As of	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
March 31, 2010	68,743	36,344	52.7	1,204.02
March 31, 2009	58,772	36,282	61.6	1,201.82

(N.B.) Total equity:

As of March 31, 2010: ¥36,254 million

As of March 31, 2009: ¥36,189 million

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

*The above-noted forecasts were prepared on the basis of information obtainable at present and contain various uncertainties. A variety of factors could cause actual results to differ from these forecasts.*

*For the information pertaining to the forecasts above, please refer to the page 6.*

## **1. Results of Operations**

### **(1) Analysis of financial performance**

#### **a. Operating Performance**

During the fiscal year under review, the global economy remained stringent overall despite signs of a recovery in all regions toward the latter half of the fiscal year under review supported by the effects of government economic measures implemented in major countries and growth in Asian countries such as China.

Under such an economic environment, with a remarkable recovery from the latter half of the fiscal year under review in demand for supply products thanks to a recovery in production and a round of inventory adjustments, the SATO Group experienced a recovery in the latter half of the fiscal year under review even in mechatronic products in some business sectors. We can see the further heightening of demand for greater efficiency as the overall economy recovers.

In Japan, the SATO Group, with an eye on the recovery in demand, 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, distribution, 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 to customers in favorable business sectors and less susceptible to economic conditions as well as those related to the public sector. As a result of the foregoing activities, net sales in Japan in the latter half of the fiscal year under review recovered greatly by 9.3% compared to the previous fiscal year to ¥29,290 million as annual net sales in Japan amounted to ¥56,819 million, a slight decline from the previous fiscal year of 0.6%. Overseas, despite sales expansion efforts in countries in the Americas, Europe, Asia and Oceania resulting in a year-on-year recovery in the latter half of the fiscal year under review (6.3%), due to a decrease from foreign exchange fluctuation (negative annual effect of ¥1,769 million), annual overseas sales amounted to ¥18,097 million (-13.7% year on year).

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. Specifically, 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 the achievement of a profit as the profitability of our overseas business improved significantly in the latter half of the fiscal year under review.

As a result of the foregoing, net sales during the fiscal year under review decreased by 4.2% from the previous fiscal year to ¥74,917 million; operating income increased by 252.6% to ¥2,574 million; ordinary income increased by 527.7% to ¥2,235 million; and net income decreased by 61.9% to ¥781 million.

By segment, the Group reported the following:

***By business segment***

(a) Mechatronic products business

Net sales declined by 9.5% to ¥28,363 million; operating income of ¥843 million was recorded compared to an operating loss of ¥81 million in the previous fiscal year.

(b) Supply products business

Net sales declined by 0.6% to ¥46,553 million; operating income increased by 113.3% to ¥1,730 million, compare to the previous fiscal year.

***By geographical segment***

(a) Japan

Net sales declined by 0.6% to ¥56,819 million; operating income increased by 4.7% to ¥3,020 million, compared to the previous fiscal year.

(b) North America

Net sales declined by 18.4% to ¥6,114 million; operating income declined by 16.0% to ¥231 million, compared to the previous fiscal year.

(c) Europe

Net sales declined by 18.7% to ¥6,875 million; an operating loss of ¥555 million was recorded compared to an operating loss of ¥1,559 million in the previous fiscal year.

(d) Asia and Oceania

Net sales increased by 1.6% to ¥5,107 million; an operating loss of ¥90 million was recorded compared to an operating loss of ¥517 million in the previous fiscal year.

b. Forecast for the fiscal year ending March 31, 2011

Concerning the forecast for the fiscal year ending March 31, 2011, despite a gradual recovery in the global economy lead by government economic measures and growth in Asian countries such as China as well as economic expansion in emerging countries, the speed of that recovery is modest and unstable factors exist.

Under such a business environment, the SATO Group formulated its Medium-term Management Plan, which starts with the fiscal year ending March 31, 2011 and lasts through the fiscal year ending March 31, 2013, in an effort to rapidly depart from the unfavorable conditions spawned in the latter half of 2008 and realize sustainable growth. The Plan establishes growth trajectory as our basic policy aiming to become a “A developing company with Profitability.”

Annual consolidated forecasts are as follows.

Net sales	¥80,000 million	(increase by 6.8% year on year)
Operating income	¥3,500 million	(increase by 35.9% year on year)
Ordinary income	¥3,300 million	(increase by 47.6% year on year)
Net income	¥1,400 million	(increase by 79.2% year on year)

The average foreign exchange rates during the period assumed in the above forecast:

US\$ = ¥90 and Euro = ¥125.

Note) A summary of the Medium-term Management Plan is provided in “3. Management Policies.”

**(2) Analysis of financial position**

a. Assets, liabilities and net assets

At the end of the fiscal year under review, the balance of current assets was ¥41,125 million, an increase of ¥4,213 million (¥36,912 million recorded at the end of the previous fiscal year). This was primarily the result of the increases in cash and deposits of ¥2,858 million, notes and accounts receivable-trade of ¥1,042 million and deferred tax assets of ¥1,710 million despite a decrease in inventories of ¥1,311 million. The balance of noncurrent assets was ¥23,078 million (¥24,780 million at the end of the previous fiscal year), a decrease of ¥1,702 million. This is the result of a decrease in property, plant and equipment of ¥820 million due to the recording of depreciation expenses, and decreases in intangible assets of ¥158 million and in deferred tax assets of ¥1,624 million.

The balance of current liabilities was ¥22,748 million (¥21,285 million at the end of the previous fiscal year), an increase of ¥1,463 million. This was primarily due to increases of ¥652 million in notes and accounts payable-trade and of ¥519 million in accounts payable-other. The balance of noncurrent liabilities was ¥5,469 million (¥4,489 million at the end of the previous fiscal year), an increase of ¥980 million. This was primarily due to increases in lease obligations of ¥663 million and provision for retirement benefits of ¥106 million.

Net assets at the end of the fiscal year under review were ¥35,985 million (¥35,918 million at the end of the previous fiscal year), an increase of ¥67 million. This was primarily as a result of a decrease of ¥993 million in cash dividends paid, despite an increase in retained earnings of ¥781 million due to the recording of net income and an increase in foreign currency translation adjustment of ¥285 million.

b. Cash flows

At the end of the fiscal year under review, cash and cash equivalents (referred to below as “cash”) stood at ¥13,774 million, an increase of ¥2,959 million compared to the end of the previous fiscal year.

The major cash flow-related factors for the fiscal year ended March 31, 2010 are outlined below.

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

Net cash provided by operating activities amounted to ¥5,860 million.

The increase in cash primarily reflected a decrease of ¥1,306 million in inventories and an increase of ¥585 million in notes and accounts payable-trade, in addition to ¥2,029 million in income before income taxes and minority interests and ¥2,418 million in depreciation and amortization, non-cash items. This was partially offset by an increase of ¥954 million in notes and accounts receivable-trade, and a ¥846 million in income taxes paid.

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

Net cash used in investing activities totaled ¥2,093 million.

This resulted primarily from expenditures of ¥1,419 million for the purchase of property, plant and equipment and of ¥521 million for the purchase of intangible assets.

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

Net cash used in financing activities amounted to ¥826 million.

This primarily reflected cash dividends paid of ¥992 million.

### *Trend in cash flow indices*

	March 31, 2007	March 31, 2008	March 31, 2009	March 31, 2010
Equity ratio (%)	56.0	55.4	58.1	55.9
Equity ratio based on market value (%)	110.7	58.9	35.0	62.5
Ratio of cash flow to interest-bearing debt (%)	198.8	165.2	110.9	120.2
Interest-coverage ratio (times)	22.0	22.7	35.3	49.3

(Notes)

The equity ratio is equal to shareholders' equity divided by total assets.

The equity ratio based on market value is equal to total stock market capitalization divided by total assets.

The ratio of cash flow to interest-bearing debt is equal to interest-bearing debts divided by operating cash flow.

The interest-coverage ratio is equal to operating cash flow divided by interest payments.

- \* All of the above indicators are calculated on a consolidated basis.
- \* Total stock market capitalization is calculated by multiplying the closing share price on the final trading day of the fiscal year by the number of issued shares (excluding treasury stock) as of the corresponding fiscal year-end.
- \* Operating cash flow equals total net cash flows provided by operating activities as stated in the consolidated statements of cash flows. Interest-bearing debts include all debts on which interest is paid, as stated in the consolidated balance sheets. Interest payments are equal to interest paid as stated in the consolidated statements of cash flows.

### **(3) Policy regarding the distribution of profits and dividends**

The Company's fundamental policy regarding distribution of profits is to "provide value to four parties" – shareholders, society, the Company, and its employees. The Company aims to achieve a high investment efficiency based on a stable and continuous dividend as well as internal reserve retained for future business expansion comprehensively taking into consideration performance and business environment.

In accordance with the above policy of providing stable and continuous dividends, the Company declared total dividends for the fiscal year ended March 31, 2010, of ¥33 per share, consisting of a year-end dividend of ¥17 per share as planned and an interim dividend of ¥16 per share.

The Company plans an annual dividend of ¥33 yen per share for the fiscal year ending March 31, 2011.

#### **(4) Risk factors**

##### **a. Risks related to trends in the automatic identification system industry**

At the present time, a large percentage of the Group's net sales derive from bar code-related products, reflecting the widespread use of bar codes throughout society. The market for bar codes benefited in its early days from the dissemination of point-of-sale (POS) system in the retail industry and from applications in production control systems, including those related to distribution and factory automation. In recent years, the market has been expanding because of demand for traceability systems for healthcare providers and the food industry and for EDI (electronic data interchange) systems. Although capital investment trends, industry realignments and other factors could impact the market in any of these areas, the Group believes that usage and demand for bar codes will continue to expand.

In the automatic identification system industry, research and development is proceeding apace on RFID technologies that enable users to input large amounts of information into IC tags/labels. The Group believes that the growing popularity of RFID represents an opportunity to expand its business. The Group has engaged in research and development on these technologies and has introduced a number of RFID-related products in selected markets. At the same time, while they offer the advantage of contact-free recognition of multiple items via radio wave, RFID are problematic in a number of respects, particularly concerns over protection of privacy, high costs and limitations regarding operation environment. The Company believes, therefore, that a certain amount of time will be required before the technologies are accepted by society in general and before the technologies have evolved to an appropriate degree. It consequently remains unclear how much these products will contribute to the Group's financial performance in the future.

The policy of the Group is to meet the needs of its customers continually. That said, however, the Group's financial performance could be affected by trends in demand for products related to bar codes and RFID.

##### **b. Currency fluctuations**

The Group's pursuit of manufacturing and sales on a global scale exposes it to the effects of currency fluctuations. Its response has been to minimize risk through financial strategies such as forward exchange contracts. Since it is never possible to totally eliminate foreign currency risks from commercial activity, any significant shift in currency values could have an impact on the Group's financial results.

##### **c. Country risks**

The Group is engaged in production and sales in a wide variety of countries. Unforeseen circumstances, including economic fluctuations, revisions of laws and regulations, and the outbreak of armed conflict, natural disasters, and infectious disease epidemics in such countries could have an impact on the Group's financial results.

## 2. Group Organization

The SATO Group is a corporate group mainly consisting of the Company and involved primarily in the production and sales of electronic printers, hand labelers and other related mechatronic products, and supply products including IC tags/labels, labels, tags, tickets, ribbons, MC-cards.

All thirty-three subsidiaries involved in the Company's business are consolidated subsidiaries and their roles and business segment information are as shown below.

The business segmentation is the same as the "Business segment information."

<b>Business</b>	<b>Main products and services</b>	<b>Contents</b>	<b>Companies</b>
<b>Mechatronic products business</b>			
Electronic printers	Electronic printers, labeling robots, automatic labelers, maintenance services	Administration	SATO CORPORATION <i>Responsible for the administration of the following subsidiaries:</i> SATO INTERNATIONAL AMERICA, INC. (U. S. A.) SATO INTERNATIONAL EUROPE N. V. (Belgium) SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore)  (4 companies)
		Shared services	SATO GLOBAL BUSINESS SERVICES PTE. LTD.  (1 company)
		Sales	SATO CORPORATION SATO AMERICA, INC. (U.S.A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. U. (Spain) SATO POLSKA SP. Z O. O. (Poland) SATO FRANCE S. A. S. (France) SATO BENELUX B.V. (Netherlands) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand)  (15 companies)
		Production	SATO CORPORATION SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD. (Malaysia)  (2 companies)

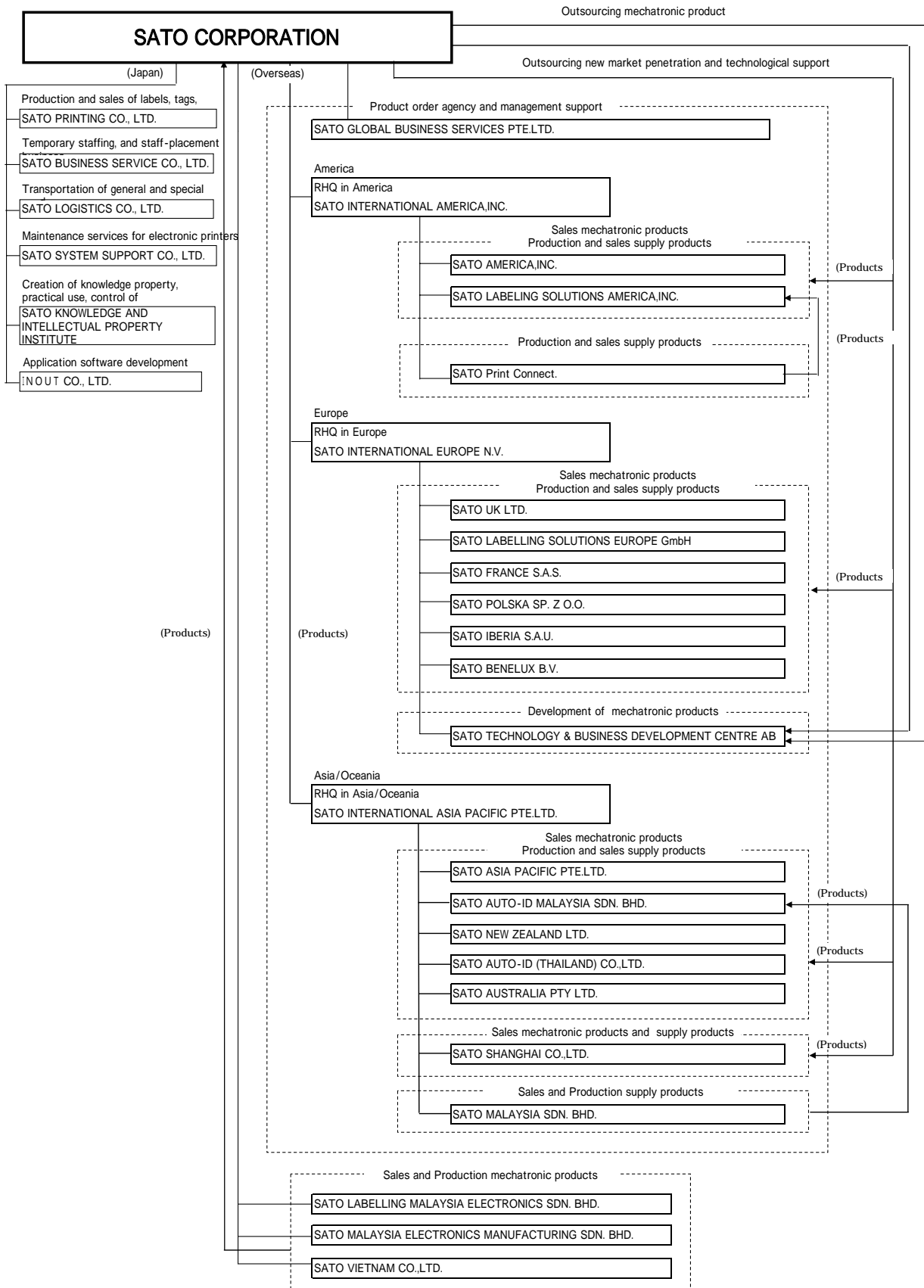
<b>Business</b>	<b>Main products and services</b>	<b>Contents</b>	<b>Companies</b>
Hand labelers	One line hand labelers, multiline hand labelers, software, maintenance services	Administration	SATO CORPORATION <i>Responsible for the administration of the following subsidiaries:</i> SATO INTERNATIONAL AMERICA, INC. (U. S. A.) SATO INTERNATIONAL EUROPE N. V. (Belgium) SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore) (4 companies)
		Shared services	SATO GLOBAL BUSINESS SERVICES PTE. LTD. (1 company)
		Sales	SATO CORPORATION SATO AMERICA, INC. (U. S. A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. U. (Spain) SATO POLSKA SP. Z O. O. (Poland) SATO FRANCE S. A. S. (France) SATO BENELUX B.V. (Netherlands) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand)
		Production	SATO LABELLING MALAYSIA ELECTRONICS SDN. BHD. (Malaysia) SATO VIETNAM CO., LTD. (Vietnam) (2 companies)

Business	Main products and services	Contents	Companies
<b>Supply products business</b>			
IC tags/labels, labels, tags, tickets, ribbons, MC-cards and other supply products	Labels/tags for electronic printers, labels for hand labelers, IC tags/labels, labels, tickets, ribbons, MC-cards	Administration	SATO CORPORATION <i>Responsible for the administration of the following subsidiaries:</i> SATO INTERNATIONAL AMERICA, INC. (U. S. A.) SATO INTERNATIONAL EUROPE N. V. (Belgium) SATO INTERNATIONAL ASIA PACIFIC PTE. LTD. (Singapore)  (4 companies)
		Shared services	SATO GLOBAL BUSINESS SERVICES PTE. LTD.  (1 company)
		Sales	SATO CORPORATION SATO AMERICA, INC. (U. S. A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. U. (Spain) SATO POLSKA SP. Z O. O. (Poland) SATO FRANCE S. A. S. (France) SATO BENELUX B.V. (Netherlands) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO AUTO-ID MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO SHANGHAI CO., LTD. (China) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand)  (15 companies)
		Production	SATO CORPORATION SATO AMERICA, INC. (U. S. A.) SATO LABELING SOLUTIONS AMERICA, INC. (U. S. A.) SATO UK LTD. (U. K.) SATO LABELLING SOLUTIONS EUROPE GmbH (Germany) SATO IBERIA S. A. U. (Spain) SATO ASIA PACIFIC PTE. LTD. (Singapore) SATO POLSKA SP. Z O. O. (Poland) SATO FRANCE S. A. S. (France) SATO MALAYSIA SDN. BHD. (Malaysia) SATO AUTO-ID (THAILAND) CO., LTD. (Thailand) SATO AUSTRALIA PTY LTD. (Australia) SATO NEW ZEALAND LTD. (New Zealand) SATO PRINT CONNECT HONG KONG LTD. (Hong Kong) SATO PRINTING CO., LTD.  (15 companies)
		Staff agency, temporary staffing	SATO BUSINESS SERVICE CO., LTD.
		Transportation of general and special goods; inspection and assembly of electronic equipment	SATO LOGISTICS CO., LTD.
		Maintenance services for electronic printers	SATO SYSTEM SUPPORT CO., LTD.
		Creating, utilizing, and maintaining intellectual property	SATO KNOWLEDGE AND INTELLECTUAL PROPERTY INSTITUTE
		Development of application softwares	INOUT CO., LTD.

(Notes)

- In addition to the above-listed companies, the Company also consolidates SATO HOLDING (THAILAND) CO., LTD. (a holding company), S. A. R. L. DES BOIS BLANCS (a real estate management company), and SATO TECHNOLOGY & BUSINESS DEVELOPMENT CENTRE AB (a support center for technology and business development).
- SATO MALAYSIA ELECTRONICS MANUFACTURING SDN. BHD., SATO VIETNAM CO., LTD., SATO GLOBAL BUSINESS SERVICES PTE. LTD., SATO INTERNATIONAL AMERICA, INC., SATO INTERNATIONAL EUROPE N.V., SATO UK LTD., SATO IBERIA S.A.U., SATO TECHNOLOGY & BUSINESS DEVELOPMENT CENTRE AB, SATO BENELUX B.V., SATO INTERNATIONAL ASIA PACIFIC PTE. LTD., SATO ASIA PACIFIC PTE. LTD., SATO MALAYSIA SDN. BHD., SATO HOLDING (THAILAND) CO., LTD., SATO SHANGHAI CO., LTD., SATO AUSTRALIA PTY LTD., SATO NEW ZEALAND LTD., SATO PRINTING CO., LTD., SATO BUSINESS SERVICE CO., LTD., SATO LOGISTICS CO., LTD., SATO SYSTEM SUPPORT CO., LTD., SATO KNOWLEDGE AND INTELLECTUAL PROPERTY INSTITUTE and INOUT CO., LTD. are subsidiaries of the Company.
- SATO FRANCE S. A. S., SATO POLSKA SP. Z O. O. and SATO LABELING SOLUTIONS EUROPE GmbH are subsidiaries of SATO INTERNATIONAL EUROPE N. V.

4. SATO AUTO-ID MALAYSIA SDN. BHD. is a subsidiary of SATO MALAYSIA SDN. BHD.
5. SATO AUTO-ID (THAILAND) CO., LTD. is a subsidiary of SATO HOLDING (THAILAND) CO., LTD.
6. S. A. R. L. DES BOIS BLANCS is a subsidiary of SATO FRANCE S. A. S.
7. SATO AMERICA, INC. and SATO LABELING SOLUTIONS AMERICA, INC. are subsidiaries of SATO INTERNATIONAL AMERICA, INC.
8. SATO PRINT CONNECT HONG KONG LTD. is a subsidiary of SATO LABELING SOLUTIONS AMERICA, INC.



### **3.Management Policies**

#### **(1) Fundamental policy**

Since its founding, guided by the watchword “ceaseless creativity,” the Sato Group has been advancing a business concept that it calls “DCS (Data Collection Systems) & Labeling.” Its fundamental management policy is to contribute to society by enabling users of its products to achieve “precision, labor savings, and resource saving.”

#### **(2) Management indices**

In terms of management indices, the Group places the great importance on the ratio of operating income to net sales and earnings per share (EPS). It considers these two indices to be benchmarks by which to measure its progress toward increasing shareholder value.

With the formulation of a new Medium-term Management Plan starting with the fiscal year ending March 31, 2011, our goal by the fiscal year ending March 31, 2013 is to achieve a consolidated net sales of at least ¥95.0 billion, a consolidated operating income of at least ¥6.0 billion, a consolidated operating income ratio of at least 6% and an EPS of at least ¥100.

#### **(3) Medium- to long-term management strategy and issues requiring action**

The SATO Group formulated its Medium-term Management Plan, which starts with the fiscal year ending March 31, 2011 and lasts through the fiscal year ending March 31, 2013. The Plan establishes growth trajectory as our basic policy aiming to become a “A developing company with Profitability” in order to realize sustainable growth. We aim to achieve record net sales and operating income by the fiscal year ending March 31, 2013, the final year of the Plan.

As the main measures, we will address the following five items.

- 1) Strengthening profitability of our business in Japan
  - a. Strengthening proposal abilities through the introduction of a business unit system by market
    - Cultivating major users
    - Speeding up cross development by creating a solutions database
  - b. Stressing management with real zero-based fixed cost
  - c. Promoting business tie-ups and cooperation
  - d. Building and expanding an operational infrastructure that supports business
- 2) Establishing a profit structure for our overseas business
  - a. Realizing companywide profit = Establishing profit structure
  - b. Effecting DCS & Labeling rooted in regional areas
  - c. Promoting information sharing and collaborative activities with our business in Japan

- d. Increasing the level of regional management
  - The Americas = Increasing profits by developing new markets and channels
  - Europe = Achieving a profit by strengthening sales and continuing structural reforms
  - Asia and Oceania = Strengthening sales on the back of economic growth
- 3) Developing new technologies and base materials that will become future core businesses
  - a. Introducing and utilizing new technologies through external alliances
    - Multiple projects in progress
  - b. Developing and utilizing new base materials including business tie-ups
- 4) Dealing with growth markets
  - a. Strengthening our response to social issues such as the environment, security, the aging society, etc.
  - b. Developing government and lifeline markets
  - c. Expanding into the markets of Asian and emerging countries
    - Introducing products that meet each country's growth stage (products competitive even in low-price markets)
- 5) Building infrastructure to achieve managerial issues
  - a. Expanding personnel development efforts
  - b. Formulating operational integration functions
  - c. Rebuilding an optimal organizational management system (Japan, overseas)

## 4. Consolidated Financial Statements

### (1) Consolidated balance sheets

Millions of yen	March 31, 2009	March 31, 2010
<b>Assets</b>		
Current assets		
Cash and deposits	10,726	13,584
Notes and accounts receivable-trade	15,304	16,346
Short-term investment securities	88	189
Merchandise and finished goods	7,249	6,198
Work in process	135	114
Raw materials and supplies	1,788	1,548
Accounts receivable-other	907	599
Deferred tax assets	277	1,987
Other	716	714
Allowance for doubtful accounts	(282)	(159)
Total current assets	36,912	41,125
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	9,911	9,931
Accumulated depreciation	(5,096)	(5,478)
Buildings and structures, net	4,814	4,453
Machinery, equipment and vehicles	10,100	10,674
Accumulated depreciation	(6,474)	(7,098)
Machinery, equipment and vehicles, net	3,625	3,576
Tools, furniture and fixtures	5,220	5,384
Accumulated depreciation	(3,840)	(4,252)
Tools, furniture and fixtures, net	1,379	1,132
Land	5,366	5,069
Construction in progress	628	762
Total property, plant and equipment	15,815	14,994
Intangible assets		
Goodwill	420	369
Software	1,277	1,062
Leasehold right	173	184
Other	162	258
Total intangible assets	2,034	1,875
Investments and other assets		
Investment securities	331	278
Long-term loans receivable	315	518
Guarantee deposits	825	806
Deferred tax assets	4,957	3,333
Other	595	1,346
Allowance for doubtful accounts	(94)	(73)
Total investments and other assets	6,931	6,208
Total noncurrent assets	24,780	23,078
Total assets	61,692	64,203

Millions of yen	March 31, 2009	March 31, 2010
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	4,013	4,666
Short-term loans payable	3,483	3,542
Accounts payable-other	10,297	10,817
Lease obligations	97	214
Income taxes payable	192	660
Provision for bonuses	84	86
Provision for directors' bonuses	-	35
Provision for product warranties	29	30
Other	3,086	2,694
Total current liabilities	21,285	22,748
Noncurrent liabilities		
Long-term loans payable	2,000	2,000
Lease obligations	478	1,141
Provision for retirement benefits	1,613	1,719
Long-term accounts payable for directors' retirement benefits	245	244
Other	151	364
Total noncurrent liabilities	4,489	5,469
Total liabilities	25,774	28,218
<b>Net assets</b>		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus	5,799	5,799
Retained earnings	28,539	28,327
Treasury stock	(3,457)	(3,457)
Total shareholders' equity	37,213	37,000
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8	5
Foreign currency translation adjustment	(1,403)	(1,118)
Total valuation and translation adjustments	(1,394)	(1,112)
Subscription rights to shares	93	89
Minority interests	6	7
Total net assets	35,918	35,985
Total liabilities and net assets	61,692	64,203

## (2) Consolidated statements of income

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Net sales	78,163	74,917
Cost of sales	45,763	43,637
Gross profit	32,399	31,279
Selling, general and administrative expenses	31,669	28,705
Operating income	730	2,574
Non-operating income		
Interest income	66	30
Dividends income	3	1
Purchase discounts	33	24
Gain on valuation of swaps	135	-
Rent income	12	33
Compensation income	-	34
Other	121	89
Total non-operating income	372	214
Non-operating expenses		
Interest expenses	142	118
Foreign exchange losses	468	292
Other	135	142
Total non-operating expenses	746	553
Ordinary income	356	2,235
Extraordinary income		
Gain on prior period adjustment	-	133
Gain on sales of noncurrent assets	17	4
Other	1	5
Total extraordinary income	19	143
Extraordinary loss		
Restructuring loss	150	261
Loss on retirement of noncurrent assets	29	22
Loss on prior period adjustment	323	-
Loss on sales of noncurrent assets	6	9
Impairment loss	295	46
Other	1	9
Total extraordinary losses	807	349
Income (loss) before income taxes and minority interests	(431)	2,029
Income taxes-current	1,395	1,337
Income taxes-deferred	(3,878)	(90)
Total income taxes	(2,483)	1,246
Minority interests in income	1	0
Net income	2,050	781

### (3) Consolidated statements of changes in net assets

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Shareholders' equity		
Capital stock		
Balance at the end of previous period	6,331	6,331
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	6,331	6,331
Capital surplus		
Balance at the end of previous period	5,799	5,799
Changes of items during the period		
Disposal of treasury stock	-	0
Total changes of items during the period	-	0
Balance at the end of current period	5,799	5,799
Retained earnings		
Balance at the end of previous period	27,481	28,539
Effect of changes in accounting policies applied to foreign subsidiaries	18	-
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income	2,050	781
Total changes of items during the period	1,040	(212)
Balance at the end of current period	28,539	28,327
Treasury stock		
Balance at the end of previous period	(2,953)	(3,457)
Changes of items during the period		
Purchase of treasury stock	(503)	(0)
Total changes of items during the period	(503)	(0)
Balance at the end of current period	(3,457)	(3,457)
Total shareholders' equity		
Balance at the end of previous period	36,658	37,213
Effect of changes in accounting policies applied to foreign subsidiaries	18	-
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income	2,050	781
Purchase of treasury stock	(503)	(0)
Disposal of treasury stock	-	0
Total changes of items during the period	536	(212)
Balance at the end of current period	37,213	37,000

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	5	8
Changes of items during the period		
Net changes of items other than shareholders' equity	3	(2)
Total changes of items during the period	3	(2)
Balance at the end of current period	8	5
Foreign currency translation adjustment		
Balance at the end of previous period	(59)	(1,403)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,344)	285
Total changes of items during the period	(1,344)	285
Balance at the end of current period	(1,403)	(1,118)
Total valuation and translation adjustments		
Balance at the end of previous period	(53)	(1,394)
Changes of items during the period		
Net changes of items other than shareholders' equity	(1,340)	282
Total changes of items during the period	(1,340)	282
Balance at the end of current period	(1,394)	(1,112)
Subscription rights to shares		
Balance at the end of previous period	58	93
Changes of items during the period		
Net changes of items other than shareholders' equity	34	(3)
Total changes of items during the period	34	(3)
Balance at the end of current period	93	89
Minority interests		
Balance at the end of previous period	8	6
Changes of items during the period		
Net changes of items other than shareholders' equity	(1)	1
Total changes of items during the period	(1)	1
Balance at the end of current period	6	7
Total net assets		
Balance at the end of previous period	36,671	35,918
Effect of changes in accounting policies applied to foreign subsidiaries	18	-
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income	2,050	781
Purchase of treasury stock	(503)	(0)
Disposal of treasury stock	-	0
Net changes of items other than shareholders' equity	(1,307)	280
Total changes of items during the period	(771)	67
Balance at the end of current period	35,918	35,985

#### (4) Consolidated statements of cash flows

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Net cash provided by (used in) operating activities		
Income (loss) before income taxes and minority interests	(431)	2,029
Depreciation and amortization	2,620	2,418
Amortization of goodwill	214	131
Gain on sales of fixed assets	(17)	(4)
Loss on sales of fixed assets	6	9
Loss on retirement of noncurrent assets	29	22
Loss on business restructuring	150	261
Increase (decrease) in allowance for doubtful accounts	146	(142)
Increase (decrease) in provision for bonuses	(23)	(0)
Increase (decrease) in provision for retirement benefits	26	127
Increase (decrease) in provision for directors' bonuses	(42)	35
Interest and dividends income	(70)	(31)
Interest expenses	142	118
Foreign exchange losses (gains)	660	182
Decrease (increase) in notes and accounts receivable-trade	3,920	(954)
Decrease (increase) in inventories	1,114	1,306
Decrease (increase) in prepaid expenses	98	31
Decrease (increase) in accounts receivable-other	(251)	388
Increase (decrease) in notes and accounts payable-trade	(1,654)	585
Increase (decrease) in accounts payable-other	(167)	679
Other, net	489	(184)
Subtotal	6,962	7,007
Interest and dividends income received	70	31
Interest expenses paid	(141)	(118)
Payments for business restructuring	(150)	(213)
Income taxes paid	(1,745)	(846)
Net cash provided by (used in) operating activities	4,994	5,860
Net cash provided by (used in) investing activities		
Purchase of investment securities	(100)	(1)
Purchase of property, plant and equipment	(1,549)	(1,419)
Proceeds from sales of property, plant and equipment	72	31
Purchase of intangible assets	(337)	(521)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(36)
Other, net	(304)	(147)
Net cash provided by (used in) investing activities	(2,217)	(2,093)

<b>Millions of yen</b>	<b>Fiscal year ended March 31, 2009</b>	<b>Fiscal year ended March 31, 2010</b>
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(2,955)	90
Proceeds from long-term loans payable	2,000	-
Repayment of long-term loans payable	(7)	-
Purchase of treasury stock	(503)	(0)
Cash dividends paid	(1,009)	(992)
Other, net	-	75
Net cash provided by (used in) financing activities	<u>(2,476)</u>	<u>(826)</u>
Effect of exchange rate change on cash and cash equivalents	(521)	19
Net increase (decrease) in cash and cash equivalents	<u>(220)</u>	<u>2,959</u>
Cash and cash equivalents at beginning of period	<u>11,035</u>	<u>10,814</u>
Cash and cash equivalents at end of period	<u>10,814</u>	<u>13,774</u>

## (Segment information)

### a. Business segment information

Millions of yen	Mechatronic products business	Supply products business	Total	Eliminations and corporate	Consolidated
<b>Fiscal year ended March 31, 2010</b>					
Net sales					
External customer sales	28,363	46,553	74,917	(-)	74,917
Intersegment transactions and transfer	-	-	-	(-)	(-)
Total	28,363	46,553	74,917	(-)	74,917
Operating expenses	27,520	44,822	72,342	(-)	72,342
Operating income	843	1,730	2,574	(-)	2,574
Assets	24,957	29,491	54,449	9,754	64,203
Depreciation and amortization	1,014	1,397	2,411	6	2,418
Impairment loss	20	26	46	(-)	46
Capital expenditures	569	1,628	2,197	195	2,392
<b>Fiscal year ended March 31, 2009</b>					
Net sales					
External customer sales	31,325	46,837	78,163	(-)	78,163
Intersegment transactions and transfer	-	-	-	(-)	(-)
Total	31,325	46,837	78,163	(-)	78,163
Operating expenses	31,407	46,026	77,433	(-)	77,433
Operating income (loss)	(81)	811	730	(-)	730
Assets	26,703	28,051	54,755	6,937	61,692
Depreciation and amortization	1,095	1,524	2,620	(-)	2,620
Impairment loss	164	131	295	(-)	295
Capital expenditures	1,105	1,271	2,376	(-)	2,376

#### (Notes)

- 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, hand labelers
  - Supply products business: labels/tags for electronic printers, labels for hand labelers, IC tags/labels, tickets, ribbons and MC-cards.
- Assets listed under Eliminations and corporate were ¥9,754 million at the fiscal year-end. The amount at the previous fiscal year-end was ¥6,937 million. These figures primarily consist of surplus operating capital (cash and short-term investment securities), assets and real estate for investment related to management divisions at the Company.
- Depreciation and amortization and Capital expenditures include the amount of long-term prepaid expenses and depreciation and amortization of long-term prepaid expenses.
- Changes in accounting policies

The Company applies "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, released on July 5, 2006) from the previous fiscal year.

Consequently, during the previous fiscal year, operating expenses increased by ¥93 million in Mechatronic products business and by ¥9 million in Supply products business compared to the amount calculated by the previous method. As a result, operating loss in Mechatronic products business increased by ¥93 million, while operating income in Supply products business decreased by ¥9 million.

## b. Geographical segment information

Millions of yen	Japan	North America	Europe	Asia and Oceania	Total	Eliminations and corporate	Consolidated
<b>Fiscal year ended March 31, 2010</b>							
Net sales							
External customer sales	56,819	6,114	6,875	5,107	74,917	-	74,917
Intersegment sales	2,669	87	209	5,120	8,087	(8,087)	-
Total	59,488	6,202	7,085	10,227	83,004	(8,087)	74,917
Operating expenses	59,488	5,971	7,640	10,318	80,399	(8,056)	72,342
Operating income (loss)	3,020	231	(555)	(90)	2,605	(31)	2,574
Assets	68,847	6,324	4,732	15,285	95,189	(30,985)	64,203
<b>Fiscal year ended March 31, 2009</b>							
Net sales							
External customer sales	57,185	7,489	8,459	5,028	78,163	-	78,163
Intersegment sales	1,793	54	284	6,761	8,893	(8,893)	-
Total	58,978	7,544	8,744	11,790	87,057	(8,893)	78,163
Operating expenses	56,093	7,268	10,303	12,307	85,974	(8,540)	77,433
Operating income (loss)	2,885	275	(1,559)	(517)	1,083	(353)	730
Assets	69,818	6,998	6,237	29,255	112,309	(50,616)	61,692

### (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
- Assets in the fiscal year ended March 2010 and 2009 included no eliminations or assets classified as corporate items.
- Changes in accounting policies

The Company applies "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, released on July 5, 2006) from the previous fiscal year.

Consequently, during the previous fiscal year, operating expenses of Japan increased by ¥66 million, operating expenses of Europe increased by ¥10 million and operating expenses of Asia and Oceania increased by ¥24 million compared to the amount calculated by the previous method, while operating income of Japan decreased by ¥66 million, operating loss of Europe increased by ¥10 million and operating loss for Asia and Oceania increased by ¥24 million compared to the amount calculated by the previous method.

### c. Overseas sales

Millions of yen	Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
	Overseas sales	As % of consolidated net sales	Overseas sales	As % of consolidated net sales
North America	7,489	9.6	6,114	8.2
Europe	8,459	10.8	6,875	9.2
Asia and others	5,028	6.4	5,107	6.8
Total	20,978	26.8	18,097	24.2
Consolidated net sales	78,163		74,917	

(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 net sales made in countries and regions other than Japan by the Company and its consolidated subsidiaries.

## 5. Non-consolidated Financial Statements

### (1) Non-consolidated balance sheets

Millions of yen	March 31, 2009	March 31, 2010
<b>Assets</b>		
Current assets		
Cash and deposits	7,475	9,088
Notes receivable-trade	2,984	3,172
Accounts receivable-trade	9,315	11,308
Merchandise and finished goods	3,200	3,420
Work in process	50	53
Raw materials	298	286
Prepaid expenses	343	357
Short-term loans receivable	2,864	921
Accounts receivable-other	1,154	895
Deferred tax assets	75	1,841
Other	95	143
Allowance for doubtful accounts	(24)	(18)
Total current assets	27,834	31,470
Noncurrent assets		
Property, plant and equipment		
Buildings	7,824	7,820
Accumulated depreciation	(4,090)	(4,344)
Buildings, net	3,733	3,476
Structures	309	309
Accumulated depreciation	(266)	(273)
Structures, net	42	35
Machinery and equipment	7,158	7,622
Accumulated depreciation	(4,745)	(5,070)
Machinery and equipment, net	2,412	2,552
Vehicles	30	28
Accumulated depreciation	(28)	(27)
Vehicles, net	2	1
Tools, furniture and fixtures	2,372	2,427
Accumulated depreciation	(1,932)	(2,074)
Tools, furniture and fixtures, net	440	352
Land	5,328	5,031
Construction in progress	462	736
Total property, plant and equipment	12,422	12,185
Intangible assets		
Software	746	709
Goodwill	8	-
Software in progress	51	168
Other	42	41
Total intangible assets	849	919

Millions of yen	March 31, 2009	March 31, 2010
Investments and other assets		
Investment securities	262	253
Stocks of subsidiaries and affiliates	8,929	15,077
Investments in capital	1	1
Investments in capital of subsidiaries and affiliates	1,365	1,532
Long-term loans receivable	295	513
Long-term loans receivable from employees	0	-
Long-term loans receivable from subsidiaries and affiliates	261	1,221
Claims provable in bankruptcy, claims provable in rehabilitation and other	74	53
Long-term prepaid expenses	46	36
Long-term accounts receivable-other	70	26
Guarantee deposits	726	711
Real estate for investment	-	839
Deferred tax assets	4,909	3,300
Other	819	673
Allowance for doubtful accounts	(94)	(72)
Total investments and other assets	17,666	24,168
Total noncurrent assets	30,937	37,273
Total assets	58,772	68,743
Liabilities		
Current liabilities		
Notes payable-trade	904	906
Accounts payable-trade	2,213	3,667
Short-term loans payable	3,000	3,000
Lease obligations	74	194
Accounts payable-other	9,858	16,433
Income taxes payable	110	527
Accrued consumption taxes	85	107
Deposits received	2,595	2,985
Provision for directors' bonuses	-	35
Provision for product warranties	15	15
Other	93	67
Total current liabilities	18,949	27,940
Noncurrent liabilities		
Long-term loans payable	2,000	2,000
Lease obligations	421	1,102
Provision for retirement benefits	823	889
Long-term accounts payable for directors' retirement benefits	245	244
Long-term guarantees deposited	49	125
Other	-	96
Total noncurrent liabilities	3,540	4,458
Total liabilities	22,489	32,399

Millions of yen	March 31, 2009	March 31, 2010
Net assets		
Shareholders' equity		
Capital stock	6,331	6,331
Capital surplus		
Legal capital surplus	5,789	5,789
Other capital surplus	9	9
Total capital surpluses	5,799	5,799
Retained earnings		
Legal retained earnings	474	474
Other retained earnings		
Voluntary retained earnings	27,325	27,325
Retained earnings brought forward	(292)	(223)
Total retained earnings	27,507	27,576
Treasury stock	(3,457)	(3,457)
Total shareholders' equity	36,180	36,248
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	8	5
Total valuation and translation adjustments	8	5
Subscription rights to shares	93	89
Total net assets	36,282	36,344
Total liabilities and net assets	58,772	68,743

## (2) Non-consolidated statements of income

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Net sales		
Net sales of finished goods	49,039	49,079
Net sales of goods	7,056	7,278
Total net sales	56,096	56,357
Cost of sales		
Cost of finished goods sold		
Beginning finished goods	3,104	2,911
Cost of products manufactured	23,560	23,085
Purchase of finished goods	4,888	6,216
Total	31,553	32,213
Transfer to other account	219	220
Ending finished goods	2,911	3,188
Cost of finished goods sold	28,421	28,804
Cost of goods sold		
Beginning goods	164	145
Cost of purchased goods	5,458	5,742
Total	5,622	5,888
Ending goods	145	97
Cost of goods sold	5,477	5,791
Total cost of sales	33,898	34,595
Gross profit	22,197	21,762
Selling, general and administrative expenses		
Sales commission, promotion expenses	268	286
Freightage and packing expenses	928	984
Advertising expenses	351	256
Directors' compensations	387	360
Salaries and allowances	8,566	8,210
Retirement benefit expenses	658	627
Provision for directors' bonuses	-	35
Welfare expenses	1,394	1,388
Traveling and transportation expenses	629	580
Communication expenses	295	305
Depreciation	823	710
Rent expenses	437	430
Research and development expenses	1,925	1,828
Commission fees	1,816	2,122
Other	1,900	1,627
Total selling, general and administrative expenses	20,384	19,753
Operating income	1,813	2,008

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Non-operating income		
Interest income	75	99
Dividends income	43	1
Commission fee	69	53
Rent income	84	166
Other	21	45
Total non-operating income	295	366
Non-operating expenses		
Interest expenses	67	83
Loss on valuation of investment securities	20	-
Foreign exchange losses	6	269
Sales discounts	18	18
Depreciation of assets for rent	52	120
Other	17	46
Total non-operating expenses	183	538
Ordinary income	1,925	1,837
Extraordinary income		
Gain on sales of noncurrent assets	14	-
Gain on sales of investment securities	-	1
Gain on bad debts recovered	-	5
Gain on reversal of subscription rights to shares	-	3
Other	1	-
Total extraordinary income	16	10
Extraordinary loss		
Loss on sales of noncurrent assets	6	6
Loss on retirement of noncurrent assets	26	10
Impairment loss	2	20
Loss on valuation of stocks of subsidiaries and affiliates	10,864	170
Other	1	9
Total extraordinary losses	10,901	216
Income (loss) before income taxes	(8,959)	1,631
Income taxes-current	732	723
Income taxes-deferred	(4,302)	(155)
Total income taxes	(3,570)	568
Net income (loss)	(5,389)	1,062

## Cost of sales

Millions of yen	Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010		
	Amount	%	Amount	%	
Cost of raw materials	20,155	85.5	19,736	85.5	
Subcontracted processing expenses	61	0.3	66	0.3	
Labor costs	*2	1,296	5.5	1,253	5.4
Expenses	*3	2,059	8.7	2,037	8.8
Total manufacturing overhead	23,571	100.0	23,093	100.0	
Semi-finished goods and work-in-process inventory, beginning of period	203		193		
Transfers to other accounts	*4	20	14		
Semi-finished goods and work-in-process inventory, end of period	193		187		
Cost of products manufactured	23,560		23,085		

Fiscal year ended March 31, 2009		Fiscal year ended March 31, 2010	
1	Method of accounting for costs The Company uses process costing for separate processes and batches; during the term, it uses estimated costs and adjusts any differences between estimated and actual costs at month end.	1	Method of accounting for costs The Company uses process costing for separate processes and batches; during the term, it uses estimated costs and adjusts any differences between estimated and actual costs at month end.
*2	Includes ¥74 million in retirement benefit expenses	*2	Includes ¥72 million in retirement benefit expenses
*3	Includes ¥737 million in depreciation expenses	*3	Includes ¥785 million in depreciation expenses
*4	The breakdown of expenses allocated to other accounts is as follows.	*4	The breakdown of expenses allocated to other accounts is as follows.
	(Millions of yen)		(Millions of yen)
Selling, general and administrative expenses	7	Selling, general and administrative expenses	5
Tools, furniture and fixtures	4	Tools, furniture and fixtures	4
Accounts receivable-other	7	Other	4
Other	1	Total	14
Total	20		

### (3) Non-consolidated statements of changes in net assets

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Shareholders' equity		
Capital stock		
Balance at the end of previous period	6,331	6,331
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	6,331	6,331
Capital surplus		
Legal capital surplus		
Balance at the end of previous period	5,789	5,789
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	5,789	5,789
Other capital surplus		
Balance at the end of previous period	9	9
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	9	9
Total capital surplus		
Balance at the end of previous period	5,799	5,799
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	5,799	5,799
Retained earnings		
Legal retained earnings		
Balance at the end of previous period	474	474
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	474	474
Other retained earnings		
Voluntary retained earnings		
Balance at the end of previous period	27,325	27,325
Changes of items during the period		
Total changes of items during the period	-	-
Balance at the end of current period	27,325	27,325
Retained earnings brought forward		
Balance at the end of previous period	6,107	(292)
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income (loss)	(5,389)	1,062
Total changes of items during the period	(6,399)	69
Balance at the end of current period	(292)	(223)

Millions of yen	Fiscal year ended March 31, 2009	Fiscal year ended March 31, 2010
Total retained earnings		
Balance at the end of previous period	33,907	27,507
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income (loss)	(5,389)	1,062
Total changes of items during the period	(6,399)	69
Balance at the end of current period	27,507	27,576
Treasury stock		
Balance at the end of previous period	(2,953)	(3,457)
Changes of items during the period		
Purchase of treasury stock	(503)	(0)
Total changes of items during the period	(503)	(0)
Balance at the end of current period	(3,457)	(3,457)
Total shareholders' equity		
Balance at the end of previous period	43,084	36,180
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income (loss)	(5,389)	1,062
Purchase of treasury stock	(503)	(0)
Total changes of items during the period	(6,903)	68
Balance at the end of current period	36,180	36,248
Valuation and translation adjustments		
Valuation difference on available-for-sale securities		
Balance at the end of previous period	5	8
Changes of items during the period		
Net changes of items other than shareholders' equity	3	(2)
Total changes of items during the period	3	(2)
Balance at the end of current period	8	5
Subscription rights to shares		
Balance at the end of previous period	58	93
Changes of items during the period		
Net changes of items other than shareholders' equity	34	(3)
Total changes of items during the period	34	(3)
Balance at the end of current period	93	89
Total net assets		
Balance at the end of previous period	43,148	36,282
Changes of items during the period		
Dividends from surplus	(1,010)	(993)
Net income (loss)	(5,389)	1,062
Purchase of treasury stock	(503)	(0)
Net changes of items other than shareholders' equity	37	(6)
Total changes of items during the period	(6,865)	61
Balance at the end of current period	36,282	36,344