

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

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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)

Three months ended	Net sales		Operating income		Ordinary income	
	(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)

Three months ended	Net income		Net income per share	Net income per share, fully diluted
	(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

As of	Total assets	Net assets	Equity ratio	Net assets per share
	(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