

SANKYO CO., LTD.

<http://www.sankyo-fever.co.jp/>

Shares listed: Tokyo (1st Section)

Code number: 6417

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Planned Date for Submittal of the Financial Statements Report: August 13, 2010

Supplementary materials for the quarterly financial statements: Yes

Presentation to explain for the quarterly financial statements: Yes

(Figures less than 1 million yen have been omitted.)

1. Results for the first quarter of FY2011 (From April 1, 2010, to June 30, 2010)

(1) Consolidated operating results

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Net income	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen	
1st quarter of FY2011	51,124	(41.2%)	13,456	(31.2%)	14,535	(31.8%)	9,152	(31.0%)
1st quarter of FY2010	87,019	89.1%	19,556	112.6%	21,303	102.3%	13,254	101.0%

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2011	95.09	-
1st quarter of FY2010	137.68	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2010	512,378	409,054	79.8	4,257.57
As of March 31, 2010	461,358	408,024	88.4	4,238.45

(reference) Shareholders' Equity As of June 30, 2010 ¥409,054 million As of March 31, 2010 ¥408,024 million

2. Dividends

(Base date)	Cash dividend per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2010	-	75.00	-	75.00	150.00
Year ended March 31, 2011	-	-	-	-	-
Year ended March 31, 2011 (Forecast)	-	75.00	-	75.00	150.00

Note: Changes in the projected cash dividends in this quarter : No

3. Forecast for FY2011 (From April 1, 2009, to March 31, 2010)

(Percentage figures denote year-over-year changes.)

	Net sales		Operating income		Recurring income		Net income		Net income per share	
	Millions of yen		Millions of yen		Millions of yen		Millions of yen		Yen	
Six months ending September 30, 2010	88,000	(38.2%)	18,000	(53.9%)	20,000	(51.3%)	13,000	(47.4%)	135.31	
Year ending March 31, 2011	183,000	(17.8%)	43,000	(22.9%)	46,000	(22.5%)	29,000	(19.9%)	301.84	

Note: Changes in the forecasts of consolidated Financial results in this quarter : No

4. Other

(1) Changes for important subsidiaries during the 1st quarter of FY2010:

Not applicable

(2) Application of simplified accounting methods:

Applicable

(3) Changes on the basis of consolidated financial statements preparation

a. Related to accounting standard revisions etc.:

Applicable

b. Other changes:

Not applicable

(4) Outstanding shares (common shares)

a. No. of shares outstanding (including treasury stock) As of June 30, 2010: 97,597,500 shares As of March 31, 2010: 97,597,500 shares

b. No. of treasury stock As of June 30, 2010: 1,520,535 shares As of March 31, 2010: 1,330,130 shares

c. Average number of shares issued and outstanding 1st quarter of FY2011: 96,243,735 shares 1st quarter of FY2010: 96,273,140 shares

* Disclaimer regarding Forward-looking Statements

The forecasts and other forward-looking statements contained in this report are based on information currently available to management. Actual results may be materially different from those expressed or implied by such forward-looking statements due to various factors.

Qualitative Information and Financial Statements

1. Qualitative Information on Consolidated Operating Results

During the first quarter of the fiscal year ending March 31, 2011 (from April 1, 2010, to June 30, 2010), despite indications that a recovery of the Japanese economy was taking hold, such as an improvement of corporate earnings led by rising exports, the employment situation continued to be severe. The outlook for the Japanese economy remains a source of concern, with prospects for small and medium-sized companies being decidedly mixed.

In the pachinko and pachislot industry, in spite of the spread of pachinko parlors offering rental balls at prices as low as ¥1 and a resurgence in the popularity of pachislot, which had been in a tough situation for some time, pachinko parlors continued to face challenges in terms of revenues and profits, reflecting the uncertain outlook for personal incomes. Consequently, since pachinko parlor operators have become increasingly cautious about the purchase of pachinko and pachislot machines, sales have been generally lackluster with the notable exceptions of certain popular series.

In these circumstances, the Product Strategy Office established in April 2010 is spearheading the Group's efforts to reinforce product competitiveness by focusing on products capable of captivating players. For the time being, the Group is shortlisting titles for market introduction.

During the first quarter of fiscal 2011, the latest pachinko title of the Bisty-brand blockbuster *Neon Genesis Evangelion* series, *CR Evangelion—Evangelical of The Beginnings*, was introduced. Reflecting the high expectations of players and pachinko parlor operators regarding this product, sales got off to a flying start: sales, including those to be recorded in the second quarter of the current year, are expected to exceed 205,000 units.

As a result, on a consolidated basis, net sales were ¥51.1 billion, a decrease of 41.2% compared with the same period of the previous year, operating income was ¥13.4 billion, a decrease of 31.2%, recurring income was ¥14.5 billion, a decrease of 31.8%, and net income was ¥9.1 billion, a decrease of 31.0%.

Results of segments are presented below:

Pachinko Machines Business

With regard to pachinko machines, the Group launched two titles for SANKYO-brand series and one for Bisty-brand series. Sales of *CR Evangelion—Evangelical of The Beginnings* (introduced in June 2010), the sixth model of a Bisty-brand series, amounted to 119,000 units in the first quarter of fiscal 2011, reflecting the title's strong following among both players and pachinko parlor operators.

As a result, segment sales amounted to ¥46.0 billion, a decrease of 41.7% compared with the same period of the previous year, and operating income was ¥14.4 billion, down 29.7%. Sales of pachinko machines amounted to 128,000 units.

Pachislot Machines Business

Although there were some promising developments, notably the downward trend of the number of pachislot machines installed became less marked, demand for new models is concentrated on certain major titles and the gulf between manufacturers is widening. The Group focused its sales efforts on Sankyo-brand *God Hunter* (introduced in June 2010) and Bisty-brand *Neon Genesis Evangelion* series, *Neon Genesis Evangelion—Die spur der Seele* (introduced in February 2010). Segment sales were ¥1.9 billion, a decrease of 38.0% compared with the same period of the previous year, and operating loss was ¥29 million. Sales of pachislot machines amounted to 7,000 units.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥2.6 billion, a decrease of 40.0% compared with the same period of the previous year, and operating loss was ¥35 million.

Other Businesses

Sales of other businesses were ¥400 million, an increase of 12.0% compared with the same period of the previous year, and operating income was ¥100 million, an increase of 5.3%.

2. Qualitative Information on Consolidated Financial Position

Analysis of assets, liabilities, and net assets

Total assets at the end of the first quarter of fiscal 2011 amounted to ¥512.3 billion, ¥50.9 billion higher than the figure at the previous fiscal year-end. The rise was mainly attributable to a ¥23.7 billion increase in accounts receivable for provision of parts and materials for value (included in current assets, other), a ¥14.2 billion increase in cash and deposits, and a ¥7.9 billion increase in merchandise and finished goods.

Total liabilities amounted to ¥103.3 billion, having increased ¥49.9 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥37.0 billion increase in notes and accounts payable-trade.

Net assets increased ¥0.9 billion compared with the figure at the previous fiscal year-end. Whereas net income of ¥9.1 billion was recorded, cash dividends paid amounted to ¥7.2 billion. As a result, net assets amounted to ¥409.0 billion and the shareholders' equity ratio decreased 8.6 percentage points to 79.8%.

3. Qualitative Information on Forecast of Consolidated Results

No revision has been made to the forecasts of financial results for the interim period of fiscal 2011 and for the full year announced on May 12, 2010.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Figures less than 1 million yen have been omitted.)

	As of June 30, 2010	As of March 31, 2010
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	157,630	143,416
Notes and accounts receivable-trade	52,284	49,868
Marketable securities	115,002	115,004
Merchandise and finished goods	8,035	36
Work in process	427	244
Raw materials and inventories	2,627	3,020
Other	41,447	15,092
Allowance for doubtful accounts	(23)	(75)
Total current assets	377,433	326,608
Fixed assets:		
Tangible fixed assets	50,772	51,055
Intangible fixed assets	302	310
Investments and other assets:		
Investment securities	77,609	77,373
Other	6,993	6,739
Allowance for doubtful accounts	(353)	(349)
Allowance for investment loss	(379)	(379)
Total investments and other assets	83,868	83,384
Total fixed assets	134,944	134,750
Total assets	512,378	461,358

Consolidated Balance Sheets

(Figures less than 1 million yen have been omitted.)

	As of June 30, 2010	As of March 31, 2010
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	67,263	30,182
Accrued income taxes	6,508	7,259
Allowance for bonuses	1,329	817
Other	22,752	9,766
Total current liabilities	97,854	48,025
Long-term liabilities:		
Provision for special retirement bonuses for directors	639	623
Accrued retirement allowance for employees	3,020	2,933
Asset retirement obligations	58	-
Other	1,751	1,752
Total long-term liabilities	5,469	5,309
Total liabilities	103,324	53,334
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,880	23,880
Retained earnings	379,446	377,529
Less: treasury stock, at cost	(9,733)	(8,969)
Total shareholders' equity	408,434	407,280
Valuation and translation adjustment:		
Net unrealized gain on other securities	620	744
Total valuation and translation adjustment	620	744
Total net assets	409,054	408,024
Total liabilities and total net assets	512,378	461,358

(2) Consolidated Statements of Income

(Figures less than 1 million yen have been omitted.)

	1st quarter of FY2010	1st quarter of FY2011
	Millions of yen	Millions of yen
Net sales	87,019	51,124
Cost of sales	45,752	24,446
Gross profit	41,267	26,678
Selling, general and administrative expenses	21,710	13,221
Operating income	19,556	13,456
Non-operating income:		
Interest income	451	356
Dividend income	48	131
Equity in earnings of affiliates	1,108	471
Other	146	127
Total non-operating income	1,753	1,085
Non-operating expenses:		
Interest expenses	0	-
Other	7	6
Total non-operating expenses	7	6
Recurring income	21,303	14,535
Extraordinary gains:		
Reversal of allowance for doubtful accounts	140	48
Total extraordinary gains	140	48
Extraordinary losses:		
Loss on disposal of fixed assets	17	2
Other	-	48
Total extraordinary losses	17	50
Income before income taxes	21,426	14,533
Income taxes:		
Current income taxes	2,294	6,876
Deferred income taxes	5,877	(1,494)
Total income taxes	8,171	5,381
Income before income taxes and minority interests	-	9,152
Net income	13,254	9,152

(3) Consolidated Statements of Cash Flows

(Figures less than 1 million yen have been omitted.)

	1st quarter of FY2010	1st quarter of FY2011
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income before income taxes	21,426	14,533
Depreciation and amortization	950	1,007
Increase in allowance for doubtful accounts	465	567
Interest and dividend income	(499)	(487)
Interest expense	0	-
Equity in earnings of affiliates	(1,108)	(471)
(Increase) decrease in notes and accounts receivable-trade	(13,932)	(2,416)
(Increase) decrease in inventories	18,919	(7,786)
Increase (decrease) in notes and accounts payable-trade	(25,702)	37,081
Other	18,201	(13,091)
Subtotal	18,720	28,938
Interest and dividend income received	658	601
Interest paid	(0)	-
Income taxes paid	(12,770)	(6,634)
Net cash (used in) provided by operating activities	6,608	22,905
Cash flows from investing activities:		
Payment for purchase of tangible fixed assets and intangible fixed assets	(2,948)	(437)
Proceeds from sale of tangible fixed assets and intangible fixed assets	0	-
Payment for purchase of investment securities	(11,034)	(10,244)
Proceeds from redemption of investment securities	8,000	10,000
Payment for increase in long-term loans	(1,806)	-
Proceeds from collection of long-term loans	15	0
Other	(8)	2
Net cash (used in) provided by investing activities	(7,782)	(679)
Cash flows from financing activities:		
Repayment for obligations under finance leases	(21)	(13)
Proceeds from sale of treasury stock, net	0	-
Payment for purchase of treasury stock, net	(0)	(764)
Cash dividends paid	(7,234)	(7,234)
Net cash (used in) provided financing activities	(7,256)	(8,012)
Net increase (decrease) in cash and cash equivalents	(8,430)	14,214
Cash and cash equivalents at beginning of the period	218,509	218,416
Cash and cash equivalents at end of the period	210,078	232,630

(4) Notes on premise of a going concern

1st quarter of FY2011 (From April 1, 2010, to June 30, 2010)

Not applicable

(5) Segment Information

(Segment information by business category)

1st quarter of FY2010 (From April 1, 2009, to June 30, 2009)

(Figures less than 1 million yen have been omitted.)

	1st quarter of FY2010 (Millions of yen)						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Other business	Total	Elimination or corporate items	Consolidated
Sales							
(1) Customers	79,045	3,212	4,366	394	87,019	-	87,019
(2) Intersegment	11	-	-	2	13	(13)	-
Total	79,057	3,212	4,366	396	87,033	(13)	87,019
Operating income	20,568	(90)	47	110	20,635	(1,078)	19,556

(Additional information)

Effective from the first quarter of the year ending March 31, 2011, 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).

1. Overview of reportable segments

The Company's segments are the Company's components for which discrete financial information is available and whose operating results are regularly reviewed by the Company's board of directors to make decisions about resources to be allocated to the segments and to assess their performance.

The Company's principal businesses are manufacturing and sales of pachinko and pachislot machines and installation and sales of ball bearing supply systems. Therefore, the Company's reportable segments are the pachinko machines business, the pachislot machines business, and the ball bearing supply systems business.

The pachinko machines business includes manufacturing and sales of pachinko machines and gauge boards, and related parts and pachinko machine-related royalty income. The pachislot machines business includes manufacturing and sales of pachislot and palot machines, and related parts and pachislot machine-related royalty income. The ball bearing supply systems business includes manufacturing and sales of ball bearing supply systems, card systems, and related equipment for parlors, and ball bearing supply system-related royalty income.

2. Information about sales and income/loss in reportable segments

1st quarter of FY2011 (From April 1, 2010, to June 30, 2010)

(Figures less than 1 million yen have been omitted.)

	1st quarter of FY2011 (Millions of yen)						
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Other business	Total	Adjustments	Consolidated
Sales							
(1) Customers	46,069	1,990	2,619	444	51,124	-	51,124
(2) Intersegment	-	-	-	-	-	-	-
Total	46,069	1,990	2,619	444	51,124	-	51,124
Segment income	14,466	(29)	(35)	116	14,518	(1,061)	13,456

(6) Notes on significant changes in shareholders' equity

Following the resolution at its board of directors' meeting on June 11, 2010, the Company bought back its shares in accordance with the provisions of Article 156 of the Companies Act applicable pursuant to Article 165, Paragraph 3, of the said Act. As a result, treasury stock at the end of the first quarter of fiscal 2011 increased JPY763 million.