

# Summary of Financial Results (Consolidated) for the Third Quarter of Fiscal 2008 Ending March 31, 2009

February 9, 2009

Listed Company Name:	ESPEC CORP.
Company Code:	6859
Exchanges Listed:	Tokyo, Osaka Stock Exchanges, First Section
Homepage:	<a href="http://www.espec.co.jp">http://www.espec.co.jp</a>
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Planned Date of Filing of Quarterly Report:	February 13, 2009
U.S. GAAP Accounting standard	Not Adopted

(Rounded off to nearest million yen)

1. Consolidated financial results for the 3<sup>rd</sup> quarter of fiscal 2008, ending March 31, 2009 (April 1, 2008 ~ December 31, 2008)

(1) Consolidated operating results (cumulative) (% figures are rates of change in comparison to the same period last year)

	Net Sales		Operating Income		Ordinary Income		Quarterly net income	
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)
Nine months ended December 31, 2008	25,739	-	346	-	418	-	(2)	-
Nine months ended December 31, 2007	28,455	0.8	1,694	(22.3)	1,746	(26.0)	661	(47.7)

	Net Income Per Share	Net income Per Share, Diluted
	(Yen)	(Yen)
Nine months ended December 31, 2008	(0.11)	-
Nine months ended December 31, 2007	27.95	27.89

(2) Financial Standing

	Total Assets	Net assets	Shareholders' Equity Ratio(%)	Shareholders' Equity Per Share of Common Stock
	(¥ million)	(¥ million)	(%)	(Yen)
As of December 31, 2008	41,791	30,219	71.8	1,265.07
As of March 31, 2008	43,810	31,127	70.6	1,305.43

(Reference) Shareholders' equity Nine months ending December 31, 2009 ¥30,022million As of March 31, 2008 ¥30,940 million

2. Dividends

(Reference date)	Dividend per share				
	End of 1 <sup>st</sup> quarter	End of 2 <sup>nd</sup> quarter	End of 3 <sup>rd</sup> quarter	Term-end	Annual
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Year ended March 31, 2008	-	12.00	-	12.00	24.00
Year ended March 31, 2009	-	9.00	-	—	—
Year ended March 31, 2009 (forecast)	—	—	—	5.00	14.00

(Note) Has there been a correction in the dividend forecast this quarter: No

3. Forecast of consolidated operating results for fiscal 2008 ending March 31, 2009 (April 1, 2008 ~ March 31, 2009)

(% figures for the whole term are rates of change in comparison to last year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(Yen)
Full-term	35,000	(14.5)	(400)	-	(200)	-	(1,500)	-	(63.22)

(Note) Has there been a correction in the consolidated results forecast this quarter? No

4. Other

(1) Transfers of important subsidiaries during this quarter (transfers of specified subsidiaries entailing changes in the scope of consolidation) No  
New (Company name: ) Excluded (Company name: )

(2) Application of simplified accounting methods and special accounting methods in the creation of quarterly consolidated financial statements: Yes  
(Note) For details, see "4. Others (2)" under "Qualitative information/ financial statements, etc." on p. 4

(3) Changes in the principles, procedures, and presentation methods, etc. of accounting methods related to the creation of quarterly consolidated financial statements (matters described in changes to important items fundamental to the creation of quarterly consolidated financial statements)

1) Changes associated with the revision of accounting standards: Yes

2) Changes other than those in 1): Yes

(Note) For details, see "4. Others (3)" under "Qualitative information/ financial statements, etc." on p.4

(4) Number of outstanding shares (ordinary shares)

1) Number of outstanding shares at end of term (including treasury stock):	Nine months ended December 31, 2008	23,781,394 shares	As of March 31, 2008:	23,750,394 shares
2) Quantity of treasury stock at end of term:	Nine months ended December 31, 2008	49,716 shares	As of March 31, 2008:	49,166 shares
3) Average number of shares during the term (consolidated quarter)	Nine months ended December 31, 2008	23,725,431 shares	Nine months ended December 31, 2007	23,673,234 shares

\* Explanation of appropriate use of results forecasts and other matters of note

1. Statements concerning the future such as the results forecasts, etc., included in this document are based on currently available information and certain assumptions judged reasonable and actual results, etc., may differ due to various factors. The consolidated results forecast and dividend forecast announced on August 8, 2008 have been revised as described in the "Notice of Revisions of Financial Forecasts and Dividend Forecasts", released on January 20, 2009.

2. From the current consolidated fiscal year onward, the Company adopts "Accounting Standards for Quarterly Financial Statements" (the Accounting Standards Board of Japan (ASBJ) Statement No.12) and "Guidance on Accounting Standards for Quarterly Financial Reporting" (ASBJ Guidance No.14). The Company also prepares quarterly consolidated financial statements in accordance with "Regulations for Quarterly Financial Statements".

## 1. Qualitative information concerning consolidated operating results

During the first three quarters of the consolidated fiscal year under review, there was a significant deterioration in the corporate results of the Company's major customers, including LCD, semi-conductor, automotive and electronics manufacturers, as a result of the global financial crisis and stronger yen; the rapid increase in the trend towards halting or restricting capital investment led to an extremely tough business environment as we entered the third quarter. As a result, there was a rapid deterioration in our key business of Environmental Tests, as well as in Electronic Device Business, in both orders and sales, which saw dramatic year on year falls for the first three quarters of the consolidated fiscal period. In terms of profits, despite efforts to improve profitability through attempts to improve cost ratios and large-scale cost-cutting, the impact of decreasing sales and exchange rate fluctuations led to a year on year fall in profits for the first three quarters of the consolidated fiscal period.

	First three quarters in previous fiscal year, consolidated (55 <sup>th</sup> term) (¥ millions)	First three quarters in current fiscal year, consolidated (56 <sup>th</sup> term) (¥ millions)	Rate of change (%)
Orders	30,904	27,632	(10.6)
Sales	28,455	25,739	(9.5)
Operating income	1,694	346	(79.6)
Ordinary income	1,746	418	(76.0)
Quarterly net income or quarterly net loss	661	(2)	—

## \*Environmental Test Business

In terms of orders and sales, despite efforts at establishing a customer service department to respond to customers' needs and strengthening sales to overseas affiliates and agencies, the sudden restriction of capital investment by all companies both in Japan and abroad, particularly automotive and electronics manufacturers, has led to a year on year fall in orders and sales for the first three quarters of the consolidated fiscal period. In terms of profits, despite the Company as a whole working hard to improve profitability by reviewing product prices and expanding self-manufacture, the impact of factors such as reduced sales led to a year on year fall in profits for the first three quarters of the consolidated fiscal period.

	First three quarters in previous fiscal year, consolidated (55 <sup>th</sup> term) (¥ millions)	First three quarters in current fiscal year, consolidated (56 <sup>th</sup> term) (¥ millions)	Rate of change (%)
Orders	23,402	20,763	(11.3)
Sales	20,994	19,549	(6.9)
Operating income	1,769	584	(67.0)

#### \*Electronic Device Business

In terms of FPD Device Business, despite the extremely tough business environment, such as the cancellation or postponement of capital investment by LCD manufacturers, orders and sales increased year on year for the first three quarters of the consolidated fiscal period, thanks in part to the contribution of orders and sales in the first half of the fiscal period. In terms of profits, despite efforts to reduce costs by promoting product standardization and localization, cost ratios deteriorated, leading to operating losses, as a result of lower profitability through the postponement and division of delivery times and losses on reevaluation of inventories.

In the Semi-Conductor Equipment Business, the trend towards freezing capital investment by semi-conductor manufactures has continued, leading to a dramatic year on year fall in both orders and sales for the first three quarters of the consolidated fiscal period. In terms of profits, there has been a year on year fall in profits for the first three quarters of the consolidated fiscal period as a result of falling sales.

Consequently, the Electronic Device Business as a whole saw a year on year fall in both orders and sales for the first three quarters of the consolidated fiscal period as a result of the poor performance in Semi-Conductor Equipment Business; in terms of profits, an operating loss was recorded due to the slump of the FPD Device Business.

	First three quarters in previous fiscal year, consolidated (55 <sup>th</sup> term) (¥ millions)	First three quarters in current fiscal year, consolidated (56 <sup>th</sup> term) (¥ millions)	Rate of change (%)
Orders	6,791	6,247	(8.0)
Sales	6,953	5,724	(17.7)
Operating loss	(96)	(195)	—

#### \*Other Businesses

In Other Businesses, the Company promoted environmental engineering such as forest and waterfront development and urban greening, as well as the development of new businesses which may become sources of earnings in the future. Orders, sales and operating income in this segment all decreased from the same period of the previous consolidated fiscal year.

	First three quarters in previous fiscal year, consolidated (55 <sup>th</sup> term) (¥ millions)	First three quarters in current fiscal year, consolidated (56 <sup>th</sup> term) (¥ millions)	Rate of change (%)
Orders	829	678	(18.2)
Sales	724	510	(29.5)
Operating income or operating loss	21	(37)	—

- \* (1) Changes in percentage are shown for reference.  
(2) Within the Group, there is a strong tendency for contracted delivery deadlines to concentrate in the 2<sup>nd</sup> and 4<sup>th</sup> quarters of the consolidated fiscal year due to budget implementation by customers.

## 2. Qualitative information concerning consolidated financial positions

Total assets at the end of the third quarter of the current consolidated fiscal year amounted to ¥41,791 million, a decrease of ¥2,019 million in comparison to the level at the end of the previous consolidated fiscal year. Major factors for the decrease included a decrease of ¥1,638 million in trade notes and accounts receivable, a decrease of ¥1,249 million in marketable securities and an increase of ¥2,013 million in inventories. Liabilities were recorded at ¥11,571 million, a decrease of ¥1,111 million from the end of the previous consolidated fiscal year. Major factors for the decrease included a decrease of ¥894 million in purchase liabilities and a decrease of ¥310 million in accrued bonuses. Net assets were ¥30,219 million, a decrease of ¥908 million from the end of the previous consolidated fiscal year. This was largely attributable to a decrease of ¥500 million in retained earnings and a fall of ¥224 million in foreign currency translation adjustments.

## 3. Qualitative information concerning consolidated results forecasts

The consolidated results forecast and dividend forecast publicized on August 8, 2008 for the financial year ending March 2009 have been revised. See the "Notice of Revisions of Financial Forecasts and Dividends Forecasts" publicized on January 20, 2009 for details.

#### 4. Others

- (1) Transfers of important subsidiaries during the period under review (transfers of specified subsidiaries entailing changes in the scope of consolidation)  
None
- (2) Application of simplified accounting methods and special accounting methods in preparing quarterly consolidated financial statements
  - [1] Simplified accounting methods  
Not applicable
  - [2] Special accounting methods in preparing quarterly consolidated financial statements  
For tax expenses, the Company has adopted the method of reasonably estimating the effective tax rate after applying tax effect accounting to net income before taxes for the current consolidated fiscal year, and then multiplying quarterly net income before taxes by the relevant estimated effective tax rate.  
However, when the tax expenses calculated using the relevant estimated effective tax rate are notably irrational, tax expenses shall be calculated using the statutory effective tax rate.
- (3) Changes in accounting principles and procedures and presentation methods concerning quarterly consolidated financial statements
  - [1] From the current consolidated fiscal year onward, the Company adopts "Accounting Standards for Quarterly Financial Statements" (the Accounting Standards Board of Japan (ASBJ) Statement No.12) and "Guidance on Accounting Standards for Quarterly Financial Reporting" (ASBJ Guidance No.14). The Company also prepares quarterly consolidated financial statements in accordance with "Regulations for Quarterly Financial Statements".
  - [2] Changes in valuation standards and methods of important assets  
Inventories  
Work in progress was previously computed mainly on a specific identified cost basis, with other inventories on a weighted average cost basis. However, as a result of the application of "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9, July 5, 2006) in the first quarter of the current consolidated fiscal year, work in progress has been calculated primarily by the specific identified cost method, while other inventories have been computed mainly by the weighted average cost method (book devaluation method based on a decrease in profitability for the values on the balance sheet).  
In association with these changes, gross profits and net income before taxes for the first three quarters of the current consolidated fiscal year each decreased by ¥211 million, compared with the figures derived by the previous methods.
  - [3] Application of "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements"  
Since the first quarter of the current consolidated fiscal year, the Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) and has made adjustments necessary for consolidated financial settlement.  
These adjustments have a negligible impact on profits or losses.
  - [4] Application of accounting standards for lease transactions  
Finance lease transactions involving no ownership transfers were previously processed in accordance with accounting policies for lease transactions. However, "Accounting Standards for Lease Transactions" (ASBJ Statement No. 13, (June 17, 1993 (1<sup>st</sup> ASBJ Review Committee), revised March 30, 2007)) and "Guidance on Accounting Standards for Lease Transactions" (ASBJ Guidance No.16 (January 18, 1994 (The Japanese Institute of Certified Public Accountants, Accounting Systems Committee), revised March 30, 2007)) were allowed to be applied to quarterly consolidated financial statements for consolidated fiscal years beginning after April 1, 2008. Thus, the Company adopted these accounting standards in the first quarter of the current consolidated fiscal year and processes under accounting policies for ordinary sales and purchase transactions.  
With regard to depreciation methods for lease assets related to non-ownership-transfer finance lease transactions, the Company has adopted a straight line depreciation method, taking the lease period as depreciable life and the residual value as zero.  
For finance lease transactions involving no ownership transfer starting before the first fiscal year of the application of these new standards, the Company continues to adopt accounting policies in accordance with the methods for ordinary lease transactions. These adjustments have no influence on profits or losses.
  - [5] Changes in accounting policies for overseas commissions  
Sales commissions for transactions by overseas agents were previously deducted from sales. However, the Company has decided to include the relevant commissions in selling, general and administrative expenses from the first quarter of the current consolidated fiscal year onward. Underlying this change was that commissions for agents have stronger implications as sales promotion (selling, general and administrative expenses) under the new sales agency contracts is concluded with major customers. The Company also reviewed the methods of managing overseas transactions during the first quarter of the current consolidated fiscal year after sales and trade control systems were established. As a result of this change, sales, gross profits and selling, general and administrative expenses each increased by ¥476 million for the first three quarters of the current consolidated fiscal year, which has no impact on operating income or quarterly net income before taxes.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2008	As of March 31, 2008
<b>Assets</b>		
Current assets		
Cash & deposits	5,149	5,461
Notes & trade receivable	14,157	15,795
Marketable securities	400	1,649
Commercial goods	135	107
Finished goods	457	323
Raw materials	1,192	1,208
Work in progress	3,541	1,674
Other current assets	2,529	2,722
Allowance for doubtful receivables	(15)	(26)
Total current assets	27,547	28,916
Fixed assets		
Tangible fixed assets		
Building & structure (Net value)	4,206	4,162
Land	4,455	4,462
Others (Net value)	902	1,049
Total tangible fixed assets	9,564	9,674
Intangible fixed assets		
Investments and other assets	882	1,073
Total fixed assets	3,797	4,145
Total assets	14,243	14,893
<b>Liabilities</b>		
Current liabilities		
Notes & trade payable	5,825	6,719
Short-term borrowing	706	457
Accrued corporate tax, etc	32	251
Accrued bonuses	213	523
Allowance for bonuses to directors	19	31
Provision for product guarantee	211	244
Others	2,371	2,161
Total current liabilities	9,379	10,390
Long-term liabilities		
Long-term debt	370	416
Liability for retirement benefit	93	130
Allowance for retirement benefits for directors	59	85
Negative goodwill	66	91
Others	1,601	1,568
Total fixed liabilities	2,192	2,292
Total liabilities	11,571	12,682

(Millions of yen)

	As of December 31, 2008	As of March 31, 2008
Net assets		
Shareholders' equity		
Common stock	6,895	6,884
Capital surplus	7,173	7,161
Retained earnings	17,240	17,741
Treasury stock	(53)	(52)
Total shareholders' equity	31,256	31,734
Unrealized gain (loss)		
Unrealized gain (loss) on available-for-sale-securities	(120)	95
Unrealized gain (loss) on land	(818)	(818)
Foreign currency translation adjustments	(294)	(70)
Total unrealized gain (loss)	(1,233)	(793)
Minority interests	197	187
Total net assets	30,219	31,127
Total liabilities and net assets	41,791	43,810

## (2) Consolidated Statements of Income

(Consolidated 3<sup>rd</sup> quarter)

(Millions of yen)

	<b>Nine months ended December 31, 2008</b>
Net sales	25,739
Cost of sales	17,819
Gross profit	7,919
Selling, general and administrative expenses	
Salaries and allowances	2,023
Provision for bonuses	69
Provision for product warranties	136
Provision for directors' bonuses	19
Others	5,324
Selling, general and administrative expenses	7,573
Operating income	346
Non-operating income	
Interest income	46
Dividends income	53
Amortization of negative goodwill	25
Equity in earnings of affiliates	95
Others	84
Non-operating income	305
Non-operating expenses	
Interest expenses	34
Loss on sales of securities	8
Foreign exchange losses	168
Others	22
Non-operating expenses	233
Ordinary income	418
Extraordinary income	
Gain on sales of noncurrent assets	0
Reversal of allowance for doubtful accounts	2
Extraordinary income	3
Extraordinary loss	
Loss on sales of noncurrent assets	1
Loss on retirement of noncurrent assets	40
Loss on valuation of investment securities	140
Others	2
Extraordinary loss	184
Income before income taxes and minority interests	237
Income taxes-current	231
Minority interests in income	8
Quarterly net loss	(2)

From this consolidated accounting year onwards, the company is applying the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No.12) and “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No.14). In addition, the company creates quarterly financial statements in accordance with the “Regulations for Quarterly Financial Statements”.

(3) Notes on the assumption of a going concern

N/A

(4) Segment information

Segment information by type of business

This consolidated 3<sup>rd</sup> quarter (From April 1, 2008 to December 31, 2008)

	Environmental test business (¥ millions)	Electronic device business (¥ millions)	Other business (¥ millions)	Total (¥ millions)	Elimination or corporate (¥ millions)	Consolidated (¥ millions)
Sales						
(1) Sales to external customers	19,516	5,723	499	25,739	-	25,739
(2) Internal sales or transfers between segments	33	1	11	45	(45)	-
Total	19,549	5,724	510	25,785	(45)	25,739
Operating income or loss	584	(195)	(37)	351	(5)	346

(5) Notes in cases where marked changes have occurred in the value of shareholder equity

N/A

## Reference material

Financial statement for the previous quarter, etc.

## (1) (Condensed) Semiannual consolidated statement of Income

	Nine months ended December 31, 2007
	Amount (¥ millions)
Net sales	28,455
Cost of sales	18,955
Gross profit	9,500
Selling, general and administrative expenses	7,805
Operating income	1,694
Non-operating income	395
Interest income	26
Dividends income	112
Equity in earnings of affiliates	144
Others	111
Non-operating expenses	343
Interest expenses	23
Foreign exchange losses	24
Commission paid	6
Loss on disposals of property, plant and equipment	57
Others	230
Ordinary income	1,746
Extraordinary income	109
Extraordinary loss	881
Income before income taxes and minority interests	974
Income taxes-current	292
Minority interests in income	20
Quarterly net income	661

(2) Segment information

Segment information by type of business

Previous consolidated 3<sup>rd</sup> quarter (From April 1, 2007 to December 31, 2007)

	Environmental test business (¥ million)	Electronic device business (¥ million)	Other business (¥ million)	Total (¥ million)	Elimination or corporate (¥ million)	Consolidated (¥ million)
Sales						
(1) Sales to external customers	20,929	6,815	711	28,455	-	28,455
(2) Internal sales or transfers between segments	65	138	13	216	(216)	-
Total	20,994	6,953	724	28,672	(216)	28,455
Operating income or loss	1,769	(96)	21	1,694	-	1,694