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Notice of Recording of Extraordinary Loss, Reversal of Deferred Tax Assets and Revisions of Financial Forecasts

In the third quarter for the fiscal year ending March 2010, ESPEC CORP. “the Company” recorded an extraordinary loss and reversed deferred tax assets, as indicated below.

The Company is hereby required to revise the financial forecast for the year, released on November 11, 2009, as follows.

Description

1. Recording of extraordinary loss

As notified in the “Notice Concerning Management Rationalization Measures (Implementation of Additional Measures)” dated December 25 last year, we have steadily promoted a reduction of fixed costs through the elimination and consolidation of offices (sale/service bases), in connection with an absorption-type merger of two consolidated subsidiaries. However, with the closures of the Yokohama R&D Center (Yokohama Sales Office/Yokohama Test Center), Saitama Sales Office and Matsumoto Sales Office, etc., business structure improvement expenses amounting to ¥222 million and an impairment loss of ¥182 million were incurred at the end of the third quarter. Other expenses expected to be generated through the current economic rationalization efforts have already been included in the following consolidated financial forecast for the year.

2. Reversal of deferred tax assets

As a result of careful consideration as to the realizability of deferred tax assets, based on the financial forecast for the fiscal year, the company decided to reverse deferred tax assets amounting to ¥818 million at the end of the third quarter, and record the equivalent income taxes-deferred, as per “Auditing Treatment Regarding Judgment of Realizability of Deferred Tax Assets” (JICPA Auditing Committee Report No.66).

3. Revision of the financial forecast

(1) Revision of consolidated performance forecast figures for the fiscal year ending March 2010 (From April 1, 2009 to March 31, 2010)

Full-term (From April 1, 2009 to March 31, 2010)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income Per Share
Previous Forecast (A) (November 11, 2009)	¥millions 24,000	¥millions (1,100)	¥millions (950)	¥millions (1,500)	Yen (63.21)
Revised Forecast (B)	24,000	(1,100)	(950)	(3,100)	(130.63)
Difference (B-A)	0	0	0	(1,600)	
Difference as Percentage (%)	0.0	0.0	0.0	-	
(Reference) Results of Previous Fiscal Year (Fiscal Year Ended March 2009)	34,914	509	766	(561)	(23.67)

(2) Reasons for the revisions

While the consolidated performances (net sales, operating income and ordinary income) for the fiscal year ending March 2010 are expected to remain the same as previously forecasted, an extraordinary loss was recorded and a reversal of deferred tax assets took place, as stated above. As a result, unfortunately, the company expects a significantly lower net income than previously forecasted. We have thus revised the consolidated performance forecasts for the full year.

Note: It should be noted that the above financial were compiled based on the management's reasonable assessment of the information available at the time of the compilation, and may change due to factors that may arise in the future.