

## Status of the Business

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### Outline of the Operating Results

#### 1. Operating Results

During the consolidated fiscal year ended March 31, 2009, the Japanese economy saw an accelerating decline in personal consumption and sluggish corporate earnings, which lead to inventory adjustment and postponement and cancellation of capital expenditure projects, amid rapid deterioration of the global economy, falling stock prices and foreign exchange fluctuations. Both domestic and overseas demand declined sharply.

Under such an economic environment, the Group focused on improving its business performance by developing and launching new products in order to meet market needs.

As a result, this consolidated fiscal year resulted in net sales of ¥64,203 million (a 10.5% decrease from ¥71,746 million in the previous term) and an operating loss of ¥215 million (a decline of ¥2,904 million compared to an operating income of ¥2,688 million in the previous term). Net loss stood at ¥2,397 million (a decline of ¥3,432 million compared to a net income of ¥1,035 million in the previous term), including extraordinary losses of ¥452 million in litigation expenses and ¥292 million in payment of damages. The litigation expenses were incurred in connection with a patent litigation with U.S. Philips Corporation, and the payment of damages were the portion attributable to the Company out of a claim filed by four regional development bureaus under the Ministry of Land, Infrastructure, Transport and Tourism against several manufacturers in relation to road information display works.

Operating results by business segment are described below:

#### <Lighting Sector>

As the leading manufacturer of HID (High Intensity Discharge) lamp products, this sector has promoted development and sales activities for products that focus on high energy efficiency and replacement market demand.

There was a general decrease in public works-related orders following the recovery in fiscal 2007. The drop in the demand for HID products for tunnels was particularly significant. As to the private sector demand, orders for HID products for factory use were strong in the first half of the fiscal year, but the demand slumped from the third quarter onwards. Deepening recession in the real estate and construction markets also suppressed demand, and the sector saw decreased sales and operating income.

As a result, sales and operating income for this sector were ¥37,094 million (a 10.7% decrease from ¥41,524 million in the previous term) and ¥550 million (a 73.9% decrease from ¥2,108 million in the previous term), respectively.

#### <Applied Optics Sector>

The Group has concentrated its management resources on the Applied Optics Sector as a growth area, but results for the sector reflect decreased sales and operating income. In addition to continued sluggishness in demand since the later half of the previous fiscal year, a sharp drop in sales during the year affected the performance. The drop in sales was due to a decrease in and rescheduling of orders reflecting postponement and cancellation of capital expenditure projects amid sharply deteriorating corporate earnings since last autumn, and, particularly, inventory adjustment of projector light source products.

As a result, sales and operating income for this sector totaled ¥26,222 million (decreased by 10.9%, compared to ¥29,415 million in the previous term) and ¥1,231 million (decreased by 57.0%, compared to ¥2,864 million in the previous term), respectively.

### <Other Sector>

Other Sector results reflect sales of ¥886 million (a 9.9% increase from ¥806 million in the previous term) and operating income of ¥12 million (an improvement of ¥182 million from an operating loss of ¥170 million in the previous term), respectively.

Operating results by geographical segment are as follows:

### <Japan>

Sales and operating income in Japan totaled ¥59,959 million (an 8.4% decrease from ¥65,432 million in the previous term) and ¥1,484 million (a decrease of 62.2% from ¥3,932 million in the previous term), respectively. This was due to the influence of a significant drop in both public work-related and private sector demand for both lighting products and applied optics products amid rapid deterioration of the economy.

### <North America>

Sales and operating income in North America stood at ¥4,277 million (a 25.9% decrease from ¥5,773 million in the previous term) and ¥358 million (a 53.1% decrease from ¥764 million in the previous term), respectively, under the influence of a sluggish U.S. economy and violent fluctuations in foreign exchange rates.

### <Asia>

Sales and operating income in Asia were ¥1,087 million (a 31.8% decrease from ¥1,595 million in the previous term) and ¥45 million (a 79.6% decrease from ¥222 million in the previous term), respectively, under the influence of a slowdown in the regional economy, a decrease in the number of large volume contracts, and adverse movements of foreign exchange rates.

### <Europe>

The Group's activities in Europe resulted in sales of ¥93 million (a 40.5% decrease from ¥156 million in the previous term) and an operating loss of ¥0 million (an improvement of ¥16 million from an operating loss of ¥17 million in the previous term), respectively. Efforts to streamline the sales structure contributed to the improvement of earnings despite the sluggish economy.

## 2. Cash Flows

Cash and cash equivalents as of the end of the consolidated fiscal year decreased by ¥2,214 million compared to the previous term, to ¥10,122 million.

### (1) Cash flows from operating activities

Net cash provided by operating activities in the fiscal year under review was ¥160 million (¥3,443 million in the previous term). Major inflow items are a ¥2,482 million decrease in trade notes and accounts receivable, ¥2,050 million in depreciation and amortization, and a ¥1,022 million decrease in inventories. Major outflow items are a ¥2,377 million decrease in trade notes and accounts payable, and net loss before income taxes and minority interests of ¥1,920 million.

### (2) Cash flows from investing activities

Net cash used in investing activities in this consolidated fiscal year was ¥1,938 million (¥1,434 million in the previous term). The main outflow item is payment of ¥1,697 million on purchases of plant, property and equipment.

### (3) Cash flows from financing activities

Net cash used in financing activities in this consolidated fiscal year was ¥77 million (¥1,328 million in the previous term). Major outflow items are payments of ¥372 million as dividends and ¥210 million as dividends to minority shareholders. Major inflow items are net increases of ¥368 million in short-term bank loans and ¥158 million in long-term bank loans.

## 3. Challenges Facing the Company

The business environment surrounding the Company is expected to be an extremely severe one, reflecting shrinkage of the public works market, sluggishness in capital expenditures amid global recession and intensifying price competition. Under such circumstances, the Company plans to concentrate on highly profitable businesses by reviewing the details of the businesses, and to strengthen the cost competitiveness for higher profitability. Moreover, for sustainable growth, we will concentrate on searching out and developing seeds of new businesses that are expected to become the pillars of future revenue sources.

Furthermore, in order to establish a profitable management structure, even under the current economic situation, we will promptly implement performance improvement measures such as total cost reduction, review of the personnel structure, and consolidation of manufacturing bases.

### <Lighting Sector>

- (1) We will substantially increase the supply of HID lamps and outdoor LED applications.
- (2) Our efforts will focus on systematization of technologies for light sources, circuits and optical design, and development of products with high added value.
- (3) Maintenance of demand from government agencies, supply of products to private markets, and reinforcement of sales activities will be our main focus.

### <Applied Optics Sector>

- (1) We will expand sales channels, and reinforce the sales force.
- (2) We will develop and expand new markets.
- (3) We will strengthen our R&D systems and commercialize the seeds of new businesses.

## 4. Important Business Agreements, etc.

Not applicable.