

Financial Results for the Nine Months Ended March 31, 2010

May 13, 2010

Company name: ZERO CO., LTD.

Code No: 9028

Tokyo Stock Exchange (Second Section)

(URL <http://www.zero-group.co.jp/>)

Representative: CEO & President

Contact for Inquiries:

Yoshi Iwashita

Takeo Kitamura

Director, General Manager, Corporate Planning Department

Telephone: (044)520-0106

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Filing date of quarterly report

Dividend payment starting date

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(Figures less than one million yen are rounded)

1. Consolidated Financial Results for the Nine Months of the Year Ending June 30, 2010 (from July 1, 2009 to March 31, 2010)

1) Consolidated Results of Operations

(Percentage shown below is year-on-year rate)

	Sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended Mar. 31, 2010	38,834	-1.4	471	-	494	-	100	-
Nine months ended Mar. 31, 2009	39,383	-	-280	-	-232	-	-307	-
	Net earnings per share-basic		Net earnings per share-diluted					
	yen		yen					
Nine months ended Mar. 31, 2010	5.89		-					
Nine months ended Mar. 31, 2009	-17.84		-					

2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of Mar. 31, 2010	33,067	11,354	34.3	664.31
As of Mar. 31, 2009	31,936	11,342	35.4	662.34

(Ref.) Shareholder's equity

As of March 31, 2010: 11,354 million yen

As of June 30, 2009: 11,321 million yen

2. Dividend

(Base date)	Cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
	yen	yen	yen	yen	yen
FY2008	-	0.00	-	0.00	0.00
FY2009		4.00	-		
Forecast for FY2009				4.00	8.00

(Note) Revision to the dividend forecasts during the current term: Not applicable

3. Consolidated Earnings Forecasts for Fiscal Year Ending June 30, 2010 (from July 1, 2009 to June 30, 2010)

(Percentage shown below is year-on-year rate)

	Sales		Operating income		Ordinary income		Net income		Net earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
FY2009	51,000	-1.2	650	-	650	-	150	-	8.78

(Note) Revision to the consolidated earnings forecasts during the current term: Applicable

4. Others

(1) Material changes in consolidated subsidiaries during the period (changes in specific subsidiaries accompanied by changes in scope of consolidation): Not applicable

(2) Adoption of simplified accounting methods and specified accounting methods for the preparation of quarterly consolidated financial statements: Not applicable

(3) Changes in accounting principles, procedures and presentation in preparation of quarterly consolidated financial statements (to be described in the changes of fundamental and important matters for the preparation of quarterly consolidated financial statements)

(i) Changes in accordance with changes in accounting principle: Not applicable

(ii) Other changes: Not applicable

(4) Number of shares issued (Common shares)

(i) Number of shares issued (incl. treasury shares):

As of March 31, 2010: 17,560,242 shares, As of June 30, 2009: 17,560,242 shares

(ii) Number of treasury shares

As of March 31, 2010: 467,551 shares, As of June 30, 2009: 467,551 shares

(iii) Average number of shares issued during the nine months of fiscal year

FY2009: 17,092,691 shares, FY2008: 17,232,196 shares

※Explanation regarding appropriate use of earnings forecasts and other remarks

1. Earnings forecasts for fiscal 2009 announced on August 7, 2009 was revised in this report. Please refer to “Revision to Earnings Forecasts for the Fiscal Year Ending June 30, 2010” announced today (May 13, 2010) for details.

2. Statements in this report relating future matters such as earnings forecasts are based on the information presently available and certain preconditions judged as rational. Actual results may largely differ from those forecasts depending on various factors.

【Qualitative Information】

1. Qualitative Information Regarding Consolidated Business Performance

During the nine months of FY2009 (from July 1, 2009 to March 31, 2010, referred to as the “current term”), despite the partial recovery movement in production and exportation against the background of the outcome of countermeasures for recession and economic recovery mainly in Asian countries, the national economy continued to remain at flat, not showing self-reliant or full-scale upturn due to continuing appreciation of the yen and deflation, stagnation of capital investment and severe employment situation.

In the automobile industry which is related to our vehicle transportation industry, thanks to tax reduction on new environmentally friendly cars and subsidies on purchase of new environmentally friendly cars which were introduced last spring, domestic new car sales resulted in 111.3% compared with the same term of previous year (data of Japan Automobile Manufacturers Association), recovered from a record stagnation one year ago. However, with its rebound, the entry volume of used car auction was decreased and the domestic used car sales resulted in 91.7% compared with the same term of previous year (data of Japan Automobile Dealers Association and Japan Mini Vehicles Association), the used car market is still in stagnation. Meanwhile, the new car exportation is slightly increasing its unit along with the recovery of overseas market, however, it resulted in 85.4% compared with the same term of previous year (data of Japan Automobile Manufacturers Association), showing below the results of previous year.

【Trend of automobile domestic sales】

Domestic sales unit	From July 2008 to March 2009	From July 2009 to March 2010	year-on-year
New vehicle			
Domestic automakers *1	3,524,444	3,921,902	111.3%
(Nissan Motor)*1	(464,920)	(514,448)	(110.7%)
Foreign automakers*2	143,974	141,084	98.0%
Used vehicle			
Passenger vehicle *3	3,209,820	2,947,744	91.8%
Mini vehicle*4	2,135,722	1,956,599	91.6%
Total of used vehicle	5,345,542	4,904,343	91.7%
De-registered vehicle *3	423,220	553,036	130.7%

Exportation unit	From July 2008 to March 2009	From July 2009 to March 2010	year-on-year
New vehicle of			
Domestic automakers *1	3,895,453	3,327,377	85.4%
(Nissan Motor)*1	(438,665)	(424,692)	(96.8%)
Used passenger vehicle*5	1,117,652	605,856	54.2%

*1: Figures calculated from the statistical data of Japan Automobile Manufacturers Association

*2: Figures calculated from the statistical data of Japan Automobile Importers' Association

*3: Figures calculated from the statistical data of Japan Automobile Dealers Association

*4: Figures calculated from the statistical data of Japan Mini Vehicles Association

*5: Figures calculated from the statistical data of de-registered vehicle unit of Japan Automobile Dealers Association

Under these severe circumstances, especially the stagnation of used car market dragged down our group sales of vehicle-transportation-related business and car selection business, however, outcome of structure reform centering on fixed cost reduction, which our entire group has promoted, showed certain progress in profit gradually. In addition, in the general cargo transportation business, although its sales decreased, its profit is continuing to improve as a result of withdrawal from its unprofitable operations.

As a result, sales were 38,834 million yen (98.6% vs. same term of previous year), down compared to the same term of previous year, however, operating income improved as 471 million yen (operating loss of 280 million yen in the same term of previous year), ordinary income marked 494 million yen (ordinary loss of 232 million yen in the same term of previous year) and net income was 100 million yen (net loss of 307 million yen in the same term of previous year).

Business performances by each segment are as follows.

(1) Vehicle Transportation Related Segment

Domestic new car sales unit of Nissan Motor Co., Ltd., our major customer, grew steadily as 110.7 % compared with the same term of previous year (data of Japan Automobile Manufacturers Association). However, their export unit resulted in 96.8% compared with the same term of previous year and used car dropped in both domestic sales unit and export unit, the transportation for those vehicles decreased compared with the same term of previous year accordingly.

Meanwhile, we have been promoting “Merging and relocation of branches”, “Rationalizing in-direct operations”, “Improving operating ratio of in-house trailers” and “Reducing transportation relay points”, making progress on cost reduction.

Thanks to the acquisition and subsidization of Driver Staff Group in October 2008 and Nissan Shizuoka Worknet Co., Ltd. in November 2008, their performance contributed to the consolidated results for the current term. As a result, sales resulted in 34,338 million yen (101.5% vs. same term of previous year) and operating income was 1,173 million yen (166.5% vs. same term of previous year).

(2) Car Selection Segment

Due to the introduction of subsidies on purchase of new environmentally friendly cars (Scrap incentive system), Car Selection (used auto auction) which features cars with old model year and high mileage is struggling to secure the entry volume against the severe circumstances. In accordance with the economic downturn, more and more users tend to extend the lease term of the car they are leasing, causing a drop in the entry volume by the

leasing company and the entry volume for our Car Selection plummeted as a whole. In addition, the successful bid volume made by the used car exporters decreased due to the influence of the trend of strong yen. As a result, sales resulted in 405 million yen (65.2% vs. same term of previous year) and operating income was 64 million yen (41.7% vs. same term of previous year).

(3) General Cargo Transportation Segment

Although the dealing volume of electronics retail stores, the main customers in this business segment, has increased due to the introduction of the eco-point system, the dealing volume of those customers in the food and restaurant industry is decreasing due to stagnation of personal consumption and the influence by deflation.

Thus, we have shrunk or pulled out from those distribution centers which were unable to improve their profitability in the short-term. As a result, sales decreased as 4,091 million yen (83.1% vs. same term of previous year), however, operating income improved as 226 million yen (933.7% vs. same term of previous year).

As for those unclassifiable operating expenses (company-wide common expenses of administrative departments) which are not included in the profit and loss by segment stated above were recorded in elimination and corporate, however, it amounted to 992 million yen (85.2% vs. same term of previous year).

2. Qualitative Information Regarding Consolidated Financial Condition

Fluctuation of financial condition

(Assets)

Current assets resulted in 12,433 million yen increased by 3.9% compared to the end of previous consolidated fiscal year. This was mainly due to increases of 1,018 million yen in trade notes and accounts receivable and 500 million yen in securities respectively despite a decrease of 1,041 million yen in cash and deposits.

Fixed assets were 20,634 million yen increased by 3.3% compared to the end of previous consolidated fiscal year. This was mainly due to an increase of 1,066 million yen in tangible fixed assets by payment upon completion of the construction of Kawasaki Complex Logistics Center despite decreases of 269 million yen in goodwill by depreciation and 221 million yen in others in intangible fixed assets by amortization of system development cost (software).

As a result, total assets were 33,067 million yen increased by 3.5% compared to the end of previous consolidated fiscal year.

(Liabilities)

Current liabilities resulted in 8,529 million yen increased by 10.2% compared to the end of previous consolidated fiscal year. This was mainly due to increases of 864 million yen in notes and accounts receivable and 124 million yen in short-term loans payable, 88 million yen in accrued consumption taxes despite decreases of 215 million yen in allowance for bonus and 75 million yen in others in current liability such as accounts payable respectively.

Fixed liabilities resulted in 13,182 million yen, increased by 2.5% compared with the end of previous consolidated fiscal year. This was mainly due to increases of 421 million yen in long-term loans payable and 117 million yen in others in fixed liabilities such as deposits received respectively, despite a decrease of 227 million yen in allowance for retirement benefits.

As a result, total liabilities resulted in 21,712 million yen, increased by 5.4% compared with the end of previous consolidated fiscal year.

(Net assets)

Net assets resulted in 11,354 million yen, increased by 0.1% compared with the end of previous consolidated fiscal year.

3. Qualitative Information regarding Consolidated Earnings Forecast

Under the downturn of used car market, we have been making our best efforts on strengthening our sales structure to acquire the order units for transportation of used cars and entry volume of used auto auction. However, the market is experiencing long-term stagnation and its negative impact is worse than initial expectation, sales of vehicle-transportation-related business and car selection business are growing at a sluggish pace. Sales as a whole are forecasted to finish approximately 2,800 million yen short from the previous forecast, which is the same level of the results of previous year.

In terms of profitability, rationalizing and streamlining of the operations such as reducing fixed costs have been making more progress than scheduled, however, we have judged that it would not be enough to cover the decline of forecasted sales entirely, thus, it is to revise the earnings forecasts for fiscal 2009 regrettably.

Variance from the earnings forecasts announced on August 7, 2009 is as follows.

	Sales	Operating income	Ordinary income	Net income	Net earnings per share
	million yen	million yen	million yen	million yen	yen
Previous forecast (A)	53,800	1,000	950	350	20.48
Revised forecast (B)	51,000	650	650	150	8.78
Increase/decrease (B – A)	-2,800	-350	-300	-200	-11.70
Increase/decrease rate (%)	-5.2	-35.0	-31.6	-57.1	-57.1
(Ref.)FY2008 actual	51,599	-532	-457	-715	-41.58

4. Others

- (1) Material changes in consolidated subsidiaries during the period (changes in specific subsidiaries accompanied by changes in scope of consolidation): Not applicable
- (2) Adoption of simplified accounting methods and specified accounting methods for the preparation of quarterly consolidated financial statements: Not applicable
- (3) Changes in accounting principles, procedures and presentation in preparation of quarterly consolidated financial statements: Not applicable

Consolidated Financial Statements

(1) Consolidated Balance Sheet

(Yen in millions)

	As of Mar. 31, 2010	Condensed Consolidated Balance Sheet as of June 30, 2009
Assets		
Current assets		
Cash and deposits	4,180	5,222
Notes and accounts receivable	6,322	5,304
Securities	700	199
Supplies	107	115
Deferred tax assets	204	209
Others	966	955
Allowance for doubtful accounts	-49	-45
Total current assets	12,433	11,962
Fixed assets		
Tangible fixed assets		
Buildings and structures, net	3,995	891
Machinery, equipment and vehicles, net	355	231
Tools, furniture and fixtures, net	100	78
Land	8,758	8,757
Lease assets, net	625	626
Construction in progress	—	2,182
Total tangible fixed assets	13,835	12,768
Intangible fixed assets		
Goodwill	2,906	3,175
Others	384	606
Total intangible fixed assets	3,291	3,782
Investments and other assets		
Investment securities	465	443
Long-term loans receivable	283	254
Deferred tax assets	1,979	1,946
Others	964	947
Allowance for doubtful accounts	-186	-168
Total investments and other assets	3,507	3,423
Total fixed assets	20,634	19,974
Total assets	33,067	31,936
Liabilities		
Current liabilities		
Notes and accounts payable	3,433	2,569
Short-term loans payable	750	625
Long-term loans payable within one year	1,517	1,555
Income taxes payable	292	250

Accrued consumption taxes	224	135
Allowance for bonus	202	418
Others	2,109	2,184
Total current liabilities	8,529	7,738
Fixed liabilities		
Long-term loans payable	7,378	6,957
Allowance for retirement benefits	3,392	3,620
Allowance for director's retirement benefits	284	267
Deferred tax liabilities	85	86
Deferred tax liabilities for revaluation	1,279	1,279
Others	760	643
Total fixed liabilities	13,182	12,855
Total liabilities	21,712	20,593
Net assets		
Shareholder's equity		
Capital stock	3,390	3,390
Capital surplus	3,204	3,204
Retained earnings	5,822	5,790
Treasury stock	-152	-152
Total shareholder's equity	12,265	12,232
Valuation and translation adjustments		
Net unrealized gains(loss) on securities	-5	-6
Revaluation reserve for land	-904	-904
Total valuation and translation adjustments	-910	-911
Minority interest	—	21
Total net assets	11,354	11,342
Total liabilities and net assets	33,067	31,936

(2) Consolidated Income Statement

(Yen in millions)

	Nine months of FY08 (from Jul 1, 2008 to Mar 31, 2009)	Nine months of FY09 (from Jul 1, 2009 to Mar 31, 2010)
Sales	39,383	38,834
Cost of sales	35,658	34,490
Gross profit	3,724	4,344
Selling, general and administrative expenses	4,005	3,872
Operating income(loss)	-280	471
Nonoperating income		
Interest income	16	10
Dividend income	0	0
Received commission	62	47
Others	90	104
Total nonoperating income	170	163
Nonoperating expenses		
Interest expenses	82	117
Others	39	23
Total nonoperating expenses	121	140
Ordinary income(loss)	-232	494
Extraordinary income		
Gain on sale of fixed assets	19	11
Total extraordinary income	19	11
Extraordinary loss		
Loss on disposal of fixed assets	15	10
Loss on retirement of fixed assets	35	7
Loss on valuation of investment securities	8	-
Restitution to subcontractor	29	-
Total extraordinary losses	89	18
Net income(loss) before tax adjustments	-302	487
Income taxes	26	407
Minority interests in loss	-21	-21
Net income(loss)	-307	100

(Yen in millions)

	Q3 of FY2008 (from Jan 1, 2009 to Mar 31, 2009)	Q3 of FY2009 (from Jan 1, 2010 to Mar 31, 2010)
Sales	13,616	13,556
Cost of sales	12,129	11,978
Gross profit	1,487	1,578
Selling, general and administrative expenses	1,455	1,270
Operating income(loss)	32	307
Nonoperating income		
Interest income	5	4
Dividend income	0	0
Received commission	18	12
Gain on investments in silent partnership	44	-
Others	16	14
Total nonoperating income	84	30
Nonoperating expenses		
Interest expenses	49	38
Others	4	17
Total nonoperating expenses	53	56
Ordinary income(loss)	63	282
Extraordinary income		
Gain on sale of fixed assets	16	0
Total extraordinary income	16	0
Extraordinary loss		
Loss on disposal of fixed assets	15	8
Loss on retirement of fixed assets	0	-
Loss on valuation of investment securities	0	-
Restitution to subcontractors	29	-
Total extraordinary losses	45	8
Net income(loss) before tax adjustments	34	274
Income taxes	103	178
Minority interests in loss	-16	-4
Net income(loss)	-52	100

(3) Consolidated Cash Flow Statement

(Yen in millions)

	Nine months of FY08 (from Jul 1, 2008 to Mar 31, 2009)	Nine months of FY09 (from Jul 1, 2009 to Mar 31, 2010)
Net cash provided by (used in) operating activities		
Net income(loss) before tax adjustments	-302	487
Depreciation	548	672
Depreciation of goodwill	109	269
Increase (decrease) in allowance for doubtful accounts	47	21
Increase (decrease) in allowance for bonus	-184	-215
Increase (decrease) in allowance for retirement benefits	-299	-227
Increase (decrease) in allowance for director's retirement benefits	29	17
Interest and dividends income	-16	-10
Interest expenses	82	117
Loss (gain) on valuation of investment securities	8	-
Loss (gain) on sales and retirement of fixed assets	31	7
Decrease (increase) in notes and accounts receivable	264	-1,018
Decrease (increase) in inventories	47	8
Decrease (increase) in other current assets	143	-55
Increase (decrease) in notes and accounts payable	-219	864
Increase (decrease) in other current liabilities	14	-115
Increase (decrease) in accrued consumption taxes	-180	158
Others, net	26	81
Subtotal	152	1,061
Interest and dividends received	16	8
Interest expenses paid	-79	-124
Income taxes paid	-709	-372
Net cash provided by (used in) operating activities	-620	573
Net cash provided by (used in) investing activities		
Payments into time deposits	-18	-9
Proceeds from withdrawal of time deposits	49	-
Purchase of short-term investment securities	-198	-701
Proceeds from redemption of securities	-	200
Purchase of tangible fixed assets	-1,486	-1,512

Proceeds from sale of tangible fixed assets	54	125
Purchase of intangible fixed assets	-51	-27
Purchase of investment securities	-0	-28
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-2,097	-
Payments of loans receivable	-310	-263
Proceeds from collection of loans receivable	172	202
Others, net	-57	30
Net cash provided by (used in) investing activities	-3,944	-1,984
Net cash provided by (used in) financing activities		
Increase in short-term loans payable	2,861	1,180
Decrease in short-term loans payable	-2,606	-1,055
Proceeds from long-term loans payable	3,500	1,622
Repayment of long-term loans payable	-988	-1,238
Repayments of lease obligations	-37	-81
Purchase of treasury stock	-20	-
Proceeds from sale of treasury stock	0	-
Cash dividends paid	-87	-66
Net cash provided by (used in) financing activities	2,619	359
Net increase (decrease) in cash and cash equivalents	-1,945	-1,051
Cash and cash equivalents at beginning of period	5,923	4,994
Cash and cash equivalents at end of period	3,978	3,943

(4) Note for the assumption of going concern

Not applicable

(5) Segment Information

Segment Information by Business

For the nine months of FY2008 (from July 1, 2008 to March 31, 2009)

(Yen in millions)

	Vehicle transportation related	Car selection	General cargo transportation	Total	Elimination and corporate	Consolidated
Sales						
(1) Sales of external customers	33,840	621	4,921	39,383	-	39,383
(2) Internal sales between business segments or transfer	-	-	-	-	-	-
Total	33,840	621	4,921	39,383	-	39,383
Operating income/loss	704	155	24	884	-1,164	-280

For the nine months of FY2009 (from July 1, 2009 to March 31, 2010)

(Yen in millions)

	Vehicle transportation related	Car selection	General cargo transportation	Total	Elimination and corporate	Consolidated
Sales						
(1) Sales of external customers	34,338	405	4,091	38,834	-	38,834
(2) Internal sales between business segments or transfer	-	-	-	-	-	-
Total	34,338	405	4,091	38,834	-	38,834
Operating income	1,173	64	226	1,464	-992	471

(Note)

1. Manner of business segment

Business segments are divided in consideration of similarities of each category, nature and market.

2. Major services of each category

Business line	Contents of business
Vehicle transportation related business	Automobile transportation, vehicle maintenance, driver dispatching, operations management of private automobiles
Car selection business	Used car auction
General cargo transportation business	Transportation of consumption goods, home electronic appliances, cargo handling of coal and minerals, warehouse leasing

(6) Note for material changes in shareholder's equity

Not applicable

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