

ETIC to provide support to Senoh Corporation

March 26th 2010
Enterprise Turnaround Initiative Corporation of Japan

The Enterprise Turnaround Initiative Corporation of Japan (“ETIC”) has decided to provide support to Senoh Corporation and related companies listed below, under Article 25, Clause 4 of the Enterprise Turnaround Initiative Corporation of Japan Act (Act 63, enacted in 2009, hereafter “the ETIC Act”).

1. Name(s) of persons or companies concerned
Senoh Corporation, Senotech Corporation, Senoh Maintenance Service Corporation, and Upsen Corporation (hereafter collectively “the Senoh Companies”)
2. Name(s) of financial institutions jointly applying for rehabilitation support with the Subject Companies
Resona Bank, Limited
3. Outline of business revitalization plan
Please see appendix.
4. Comments from State Ministers in charge of ETIC
Prime Minister, Minister of Internal Affairs and Communications, Minister of Finance, Minister of Economy, Trade and Industry: No opinion expressed

Minister of Health, Labour and Welfare:
“I have no objection to the plan. However, I ask that after reaching the decision to support, ETIC moves quickly to discuss the situation with employees of the companies. I also ask that in advising on and guiding the implementation of the corporate revitalization plan, ETIC gives appropriate consideration compliance with related laws and regulations and holding discussions with the workforce.”
5. Comment from state ministers supervising business activities
Minister of Economy, Trade and Industry:
“The manufacture and sale of sporting equipment for schools and public facilities is linked to the growth of the health-related industry, and is an important element of our nation’s economic society. I believe that the revitalization of this internationally recognized business is of great importance, and I hope that steady progress in revitalization should be achieved.”
6. Debt purchase application period
From Friday, March 26, 2010 for receipt by ETIC no later than Monday May 31, 2010.
7. Request for temporary suspension
Under Article 27, Clause 1 of the ETIC Act, financial institutions have been requested not to recover loans or exercise any other rights they may have as creditors before the end of the debt purchase period as per item 6 above.

8. Treatment of trade and general creditors

The decision by ETIC to provide support involves requesting financial support only from financial institutions providing loans to the Senoh Companies. There will be no impact on trade and general creditors.

9. Basis for decision to support

ETIC's basis for deciding to provide support is as follows.

9.1 Rationale

The Senoh Companies specialize in (1) sports-related equipment supply, (2) training-related equipment supply, and (3) installation and maintenance, with a core customer base of schools and public gymnasiums.

Products and maintenance services provided by the Senoh Companies are a vital part of promoting sporting activity in the community, and the companies have a high degree of community engagement. The Senoh Companies have a strong customer base, with a particularly large market share for competition equipment used in high schools, universities, and public gymnasiums, making them a social support mechanism for competitive sports in Japan. With all of their gymnastics, volleyball and basketball equipment approved by the International Sports Federation, the Senoh Companies contribute to the development of competitive sports in Japan as official suppliers of Olympic events and a variety of other international sports events.

If the Senoh Companies were to reach the stage of bankruptcy, this element of social infrastructure would cease to exist, causing widespread disruption in schools and public gymnasiums and potentially throughout the sports market, with an adverse affect on the promotion of physical exercise and health in this country. Moreover, there would be a significant impact on existing clients requiring maintenance and component supply (including around 10,000 schools and 3,500 gymnasium facilities), product suppliers (around 450 companies), and the nearly 400 employees of the Senoh Companies.

ETIC believes that providing support for the revitalization of the Senoh Companies should help stimulate regional economies and contribute to the development of Japanese lifestyles and society.

9.2 Role of ETIC

ETIC, after completion of debt restructuring at the Senoh Companies, will purchase all remaining debt associated with operations of a new company to be formed through a company separation (absorption separation) in which all the business operations of Senoh will be transferred and continued.

ETIC, as the 100% owner of the new company, will develop a corporate governance structure, and through placement of management personnel will implement a management and administrative system. ETIC will also support the ongoing

revitalization of Senoh by providing the new company with a capital injection of ¥400.0 million for the purposes of business restructuring, capital expenditure and other such activities, and as necessary will guarantee a certain level of lending by main financial institutions for working capital

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* Please see attached appendix for Outline of Business Revitalization Plan

Appendix: Outline of the Business Revitalization Plan

Section 1: Overview of the companies receiving support

1.1 Names of companies

Senoh Corporation (hereafter, "Senoh"), Senotech Corporation, Senoh Maintenance Service Corporation, and Upsen Corporation (collectively, "the Senoh Companies"). Unless stated otherwise, the following overview refers to Senoh.

1.2 Head office

250 Matsuhidai, Matsudo-shi, Chiba 270-2214 Japan

Registered address: Shinagawa 2-2-13, Minami Shinagawa, Shinagawa-ku, Tokyo

1.3 Date of establishment

January 19, 1946 (founded April 1908)

1.4 Capitalization

¥156 million

1.5 Share information

Total authorized shares: 10,000 shares

Total shares outstanding: 2,730 shares

1.6 Principal shareholders (as of end February 2010)

Owner	Relationship	Shares held	Percentage of total
Kazuo Senoh	CEO	780	28.6%
Senotech Corporation	Subsidiary	502	18.4%
Yamanaka Corporation	Supplier	200	7.3%
Senoh Electronics Corporation	Affiliated company	111	4.1%

1.7 Main business

Manufacture and sale of sports and training-related equipment

Installation and maintenance operations

1.8 Number of employees

410 (Group total, as of December 31, 2009)

1.9 Main locations

Sapporo, Sendai, Kanto-Shinetsu, Tokyo, Yokohama, Nagoya, Osaka, Hiroshima, Fukuoka

1.10 Main banks

Resona Bank, Limited; Gunma Bank, Ltd.; others

1.11 Affiliated companies

Senoh Electronics Corporation; Akutasu Corporation (dormant company); Qing Dao

Senoh Sporting Goods Co., Ltd. (manufacturing plant in China)

1.12 Financial overview (financial results as of year ended March 31, 2009)

Net sales	¥11,383.85 million
Gross profit	¥2,098.75 million
Ordinary income	¥88.0 million
Operating loss	(¥181.38 million)
Net assets	¥813.58 million
Total assets	¥11,297.38 million

Section 2: Background and circumstances leading to request for ETIC support

Established as a company specializing in the manufacture and sale of gymnastics equipment, the Senoh Companies' products were internationally certified at the 1964 Tokyo Olympics, which solidified their position as a top organization for competitive indoor sports and allowed them to expand to be a major support mechanism for gymnasium infrastructure. From around the 1990s, the Senoh Companies expanded into the manufacture and sale of training-related equipment. This was supplemented by the development of an installation and maintenance operation, and the companies grew to post sales of well over ¥10 billion yen.

However, at the same time as starting the manufacture and sales of training-related equipment, the Senoh Companies developed a construction and installation business that was conducted without sufficient know-how or structure. This business soon brought about a major loss—part of which was disguised. Furthermore, the Senoh Companies experienced hard times in their main line of business as a result of the downturn of the domestic economy and a further declining national birthrate. As revenue decreased, the Senoh Companies were unable to improve cost structures, causing a downward trend in earnings. For fear of affecting their clientele, the Senoh Companies repeatedly made window-dressing settlements of accounts, which ultimately resulted in Senoh fall into the situation, with excessive debt of ¥6.5 billion by the end of September 2009.

Profits further worsened as the recession hit in 2008, and having a financial structure that excessively depended on borrowing, the Senoh Companies dropped into extreme financial instability. The Senoh Companies then received cooperation from financial organizations to postpone principal and interest payments, but were already experiencing considerable difficulty making any major improvements to their financial structure.

Meanwhile, as the Senoh Companies expanded to support Japan's gymnasium infrastructure, there was increasing concern about the large number of clients, including financial organizations, which would be greatly affected if the Senoh Companies went bankrupt.

In order to resolve this situation, the Senoh Companies consulted with their principal financial organization, Resona Bank, and agreed to apply to ETIC to undergo a drastic reconstruction through a transparent and fair process with the support of ETIC, while minimizing damage to enterprise value and working to maximize the value of the Senoh Companies' group debt held by financial institutions.

Section 3: Outline of business revitalization plan

1. Business plan

1.1 Basic policy

While making drastic revisions to correct the primary causes of the Senoh Companies' predicament, the business plan will seek to optimize the competitive strengths of the Senoh Companies, continue to contribute to the development of competitive sports, and support the regional development of social environments conducive to physical exercise and health.

1.2 Specific initiatives

i. Organizational management structure and personnel policy reform

a. Strengthen management function

Under the direction of a new CEO brought in from outside the companies, steps will be taken to improve management efficiency and enhance the decision-making process, while strengthening the strategic planning and decision-making functions of the board of directors.

b. Develop function-specific organizational design

Responsibilities and authority will be clarified and the organization simplified through a reduction of management layers and positions. At the same time, targets will be established by function for each area of the organization and a performance-based appraisal system will be introduced.

ii. Comprehensive review of high cost structure

Costs will be addressed through measures to optimize the organizational and personnel framework, procurement and expenses, and the pricing of products and services.

iii. Redistribution of management resources

For training operations, the less competitive general retail supply division will be reduced, and more resources will be allocated to the public supply division. Resources will continue to be allocated to sports operations for it to stay competitive. A certain level of resources will also be allocated to the development of new markets, such as the medical welfare field, that show growth potential.

2. Business restructuring

All external debt of the Senoh Companies, other than that of Senoh Corporation, will through a liability transfer be concentrated in Senoh Corporation, after which Senoh Corporation will establish a new wholly owned subsidiary (hereafter, the "New Company"). All the existing business operations of the Senoh Companies will be transferred through company separation (absorption separation) to the New Company. After the company separation, Senoh Corporation (hereafter, the "Old Company") will be liquidated through special liquidation proceedings (second company method).

Prior to implementation of the company separation, Senoh Corporation will transfer to ETIC all shares in the New Company, and the New Company will become a 100% subsidiary of ETIC. After the company separation, the New Company will receive a ¥400 million capital increase from ETIC to finance restructuring costs, capital expenditure and other such items.

The Senoh Companies plan to file an application for recognition under the Revitalization Plan for Small and Medium Enterprises, defined in Article 39, Clause 2 of the Act on Special Measures for Industrial Revitalization and Industrial Innovation (Law 131, enacted 1999).

3. Request for financial support

Of the ¥7.8 billion owed to financial institutions by the Senoh Companies, financial support of approximately ¥4.8 billion will be requested to financial institutions (effective debt forgiveness through the Second Company method).

4. Financing

Financing of the business is expected to be sufficient, provided that financial support is received in line with the business revitalization plan, along with seasonal financing and the capital injection from ETIC.

5. Quantitative targets

Sales in the year ending March 2013 are expected to be slightly less than current sales, with estimated operating income for the same year of ¥137 million. Although the Senoh Companies do not compile consolidated financial results, by way of reference, consolidated operating income for the same period is estimated at ¥253 million.

Section 4. Conformance with standards for support

1. Possession of effective management resources

As a specialist in the manufacture and sales of sports-related equipment and training-related equipment, the Senoh Companies have the following three effective management resources.

1.1 The Senoh Companies have a strong customer base, particularly backed by a large market share for competition equipment in high schools, universities, and public gymnasiums, making them a social support mechanism for competitive sports in Japan.

1.2 The International Sports Federation officially approves all gymnastics, volleyball and basketball equipment manufactured by the Senoh Companies, and they contribute to the development of competitive sports in Japan.

1.3 As a domestic brand, the Senoh Companies possess a nationwide maintenance network, and are involved in the development of physical exercise and health around the country.

2. Excessive indebtedness

The Senoh Companies carry ¥7.8 billion of interest-bearing debt, an excessive amount compared to revenues. Debt forgiveness and financial support are essential to the revitalization of the Senoh Companies.

3. Factors confirming potential for business revitalization

3.1 Agreement of main creditors

The application by the Senoh Companies was made jointly with Resona Bank.

3.2 Standards for productivity improvement

Successful implementation of this business revitalization plan is expected to increase

ROE by at least two percentage points, increase the tangible fixed asset turnover ratio by at least five percentage points, and increase the value-add per employee by at least six percentage points.

3.3 Standards for financial soundness

Through implementation of this business revitalization plan, the ratio of interest-bearing debt to cash flow will be within ten times, and current revenues will be greater than current expenses.

4. Comparison with liquidation value

The value of Senoh Companies' debt on liquidation is estimated to be less than the value available through implementation of the business revitalization plan.

5. Potential to dispose within three years all debt, shares or other assets acquired by ETIC

Implementation of the business revitalization plan is expected to significantly improve the financial condition of the Senoh Companies, enabling the companies to achieve stable cash flows and making refinancing possible.

6. Connection with structural oversupply

Implementation of the business revitalization plan will not increase the supply capacity of Senoh Companies. Accordingly, the plan has been judged as 'not hindering the resolution of structural oversupply' with reference to Article 19 of the Act on Special Measures for Industrial Revitalization and Industrial Innovation.

7. Status of consultations with workforce

There are no labor unions connected with the Senoh Companies. Employee briefings on the situation are planned.

Section 5: Responsibility of management

The responsibility of the former management team for the current predicament of the Senoh Companies will be reflected through the resignation of all directors, without directors' retirement benefits.

Section 6: Responsibility of shareholders

To reflect the responsibility of shareholders, the representatives of the Senoh Companies will transfer to Senoh, without compensation, all shares held in affiliated companies. Shareholders of Senoh, during the special liquidation process of the former company after company separation, will not receive any distribution of remaining assets, and will effectively have all their shares cancelled.

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