September 30, 2009

Fiscal 2010 Second-quarter Consolidated Earnings Report

Company name: Star Micronics Co., Ltd. Stock listing: First Section, Tokyo Stock Exchange
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Scheduled payment of dividends: November 10, 2009

(Figures less than one million are rounded down)

1. Results for the Second Quarter of Fiscal 2010 (March 1, 2009 to August 31, 2009)
(1)Consolidated Operating Results （Percentages represent changes over the corresponding period of the previous fiscal year.）

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended August 31,2009	13,296	—	(2,003)	—	(1,984)	—	(2,974)	—
Six months ended August 31,2008	32,309	(6.8)	5,496	(15.2)	5,867	(13.6)	3,318	(16.3)

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
Six months ended August 31,2009	(63.32)	—
Six months ended August 31,2008	61.86	61.82

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	(¥ million)	(¥ million)	%	(¥)
As of August 31,2009	59,646	51,265	84.7	1,075.84
As of February 28,2009	64,204	52,986	81.5	1,114.21

Reference: Shareholders' Equity
As of August 31, 2009 ¥50,529 million As of February 28, 2009 ¥52,332 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
Year ended February 28,2009	—	30.00	—	15.00	45.00
Year ended February 28,2010	—	11.00			
Year ended February 28,2010 (projected)			—	11.00	22.00

(Note)Modifications to the dividend projection in this Second-quarter:None

3. Consolidated Outlook for the Fiscal Year Ending February 28, 2010（From March 1, 2009 to February 28, 2010)
(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Year	26,500	(53.5)	(5,200)	—	(5,050)	—	(4,700)	—	(103.26)

(Note)Modifications to forecasts of consolidated operating results in this Second-quarter:Yes

4. Others

(1) Significant changes in subsidiaries during the period under review (changes in certain specified subsidiaries resulting in revised scope of consolidation): None

(2) Adoption of simplified accounting methods and special accounting methods for quarterly consolidated financial statements: None

(3) Changes in principles, procedures and classifications of accounting standards associated with the preparation of quarterly consolidated financial statements(described in "Changes in Significant Accounting Policies Used in Preparation of Quarterly Consolidated Financial Statements")

(i) Changes associated with revised accounting standards: Yes

(ii) Changes other than those in (i) above: None

(4) Number of shares issued and outstanding (common stock)

(i) Number of shares issued and outstanding at period-end (including treasury stock)

As of August 31, 2009: 51,033,234 shares As of February 28, 2009: 51,033,234 shares

(ii) Number of treasury stock at period-end

As of August 31, 2009: 4,065,500 shares As of February 28, 2009: 4,065,150 shares

(iii)Average number of outstanding shares (during the six monsths ended August 31)

As of August 31, 2009: 46,967,891 shares As of August 31, 2008: 53,648,096 shares

※Regarding the appropriate use of earnings projections and other noteworthy matters

1. The above projections are based on information available at the time of release of this report. Actual results may differ materially from projections due to a variety of factors. In regard to matters concerning full-year forecasts, Star Micronics has revised forecasts announced on April 9, 2009, factoring in the consolidated performance over the first half of fiscal 2010 and the outlook going forward. For further details, please see the press release titled “Differences Between First-half Fiscal 2010 Consolidated Forecasts and Results, and Revision of Full-year Fiscal 2010 Consolidated Forecasts” issued separately today (September 30, 2009).

2. The revised consolidated net income per share forecast for fiscal 2010 reflects the impact of the repurchase of the Company’s own shares based on Board of Directors’ resolutions passed on August 28, 2009.

3. Effective from the fiscal year ending February 28, 2010, Star Micronics has applied the “Accounting Standard for Quarterly Financial Statements” (Accounting Standards Board of Japan (ASBJ) Statement No.12, March 14, 2007), and the “Guidance on Accounting Standards for Quarterly Financial Statements” (ASBJ Guidance No. 14, March 14, 2007) are applied. In addition, the quarterly financial statements are prepared in accordance with the “Regulations for Quarterly Consolidated Financial Statements.”

1. Qualitative Information Related to Consolidated Operating Results

During the first two quarters of fiscal 2010, the fiscal year ending February 28, 2010, economic conditions continued to be weak, despite indices indicating the slowdown was bottoming out in Europe and the U.S. in the second quarter amid the steady disappearance of financial instability. In Asia, the Chinese economy recovered due to measures to stimulate domestic demand, but the Japanese economy, in the same manner as Europe and the U.S., continued to be sluggish. The yen also appreciated compared to the same period of the previous fiscal year.

Demand fell sharply in all the major markets in which the Star Micronics Group operates, including machine tools, printers, mobile phones and wristwatches, mainly due to the impact of constrained capital investment and sluggish consumer spending associated with the financial instability and the economic downturn.

Against this backdrop, the Star Micronics Group took steps to counter the rapid contraction of its markets. Specifically, the Group thoroughly reduced expenses, mainly fixed costs, including the commencement of realigning subsidiaries, and implemented substantial production cutbacks to eliminate excess inventories in the Machine Tools and other business segments. In addition, the Group expanded activities to prepare for the time after the projected recovery of the economic environment, including the development of new products, capital investment aimed at rationalization, and reviews of production systems to strengthen cost competitiveness. Despite these efforts, owing to the impact of reduced capital investment caused by economic deterioration, the Machine Tools Segment and the Special Products Segment posted large declines in sales. In the Components Segment as well, although the rapid production cutbacks made by mobile phone manufacturers started to ease, order levels did not recover and sales ended up declining. Furthermore, in the Precision Products Segment, sales of components for wristwatches decreased, although sales of components for small hard disk drives (HDDs) showed signs of recovery in the second quarter.

As a result of the above factors, Star Micronics reported consolidated sales of ¥13,296 million, down 58.8% year on year, in the second quarter of fiscal 2010. As regards profits, although the Group endeavored to revive earnings by thoroughly reducing expenses and adopting other measures, the large decline in sales led to an operating loss of ¥2,003 million and an ordinary loss of ¥1,984 million. The net loss for the quarter was ¥2,974 million, partly due to increased taxes resulting from a change in dividend policy at a subsidiary prompted by tax reforms in fiscal 2009.

Performance by segment was as follows:

(Special Products)
In a market environment that continued to be weak, the Group endeavored to carry out finely tuned marketing activities in various regions, and promoted the cultivation of markets in emerging nations in anticipation of a future recovery in demand. However, companies continued to show a cautious stance toward new investment, with anticipated investments in the core point-of-sale (POS) printer market being postponed or suspended, despite signs of recoveries in sales in some regions. Together with the negative impact of exchange rates, sales of both dot impact printers and thermal printers fell sharply.
As a result of the above, segment sales declined a substantial 50.7% to ¥3,164 million, while operating income fell 88.5% to ¥108 million.

(Components)
In this business segment, the Group made investments aimed at rationalization, further reduced costs, and promoted the cultivation of new customers. In the mobile phone market, which is the core market of this business segment, although production cutbacks by mobile phone makers eased, demand did not recover and calls for price reductions increased. Overall demand continued to be sluggish despite increased demand for components for automobile ETC terminals. Consequently, sales of receivers, speakers and other products ended up declining.
As a result of the foregoing, sales in this segment fell a significant 37.9% to ¥4,017 million, and operating income turned to a loss of ¥635 million.

(Machine Tools)
In CNC automatic lathes, demand, which had declined rapidly from last fiscal year, remained at low levels both in Japan and overseas as capital investment in the core European market and elsewhere continued to be restrained overall, although orders related to domestic demand in China tended to recover. Against this backdrop, the Group carried out substantial production adjustments to restore inventories, and also endeavored to win orders by actively taking part in exhibitions. Nevertheless, the Group could not overcome the challenging conditions.
As a result of the above, segment sales declined 72.9% to ¥4,684 million, marking a steep drop, and operating income ended up at a loss of ¥465 million.

The Group reviewed its sales framework and decided to dissolve Star Micronics AB, a sales subsidiary in Sweden.

(Precision Products)
With no signs of a recovery in demand, sales of wristwatch components declined substantially as wristwatch manufacturers continued to make production cutbacks. Sales of non-wristwatch components declined in year-on-year terms, although sales of car audio components produced in overseas plants and small HDD components steadily recovered in the second quarter.

As a result, segment sales declined 33.0% to ¥1,429 million, marking a significant fall, and operating income fell to a loss of ¥166 million.

The Group reviewed its sales framework and decided to dissolve Micro Kikugawa Company, a domestic production subsidiary, by the end of October 2009.

Performance by geographical segment was as follows:

Japan
In Japan, sales significantly decreased, especially of machine tools and POS printers for Europe and the U.S. As a result, net sales decreased 65.3% to ¥8,499 million, and an operating loss was incurred of ¥1,663 million.

Europe
In Europe, results were partly impacted by exchange rate conversions, as well as by a substantial decline in sales of machine tools. Net sales declined 67.4% to ¥3,487 million, and operating income fell 80.2% to ¥328 million.

North America
In North America, sales of machine tools and POS printers significantly decreased. As a result, net sales decreased 57.1% to ¥2,575 million, and an operating loss was incurred of ¥183 million.

Asia
In Asia, sales declined substantially due to the Group's withdrawal from the computer printer business as well as to decreased sales of machine tools and micro audio components. Net sales declined 59.5% to ¥5,677 million, and an operating loss was incurred of ¥126 million.
*From the fiscal year under review, quarterly financial statements are prepared in accordance with the “Rules for preparing quarterly consolidated financial statements.” As a result, year-on-year changes in qualitative information related to business results are given for reference purposes.

2. Qualitative Information Concerning Consolidated Financial Position

(1) Changes in Consolidated Financial Position
Total assets at the end of the second quarter under review amounted to ¥59,646 million, a decrease of ¥4,558 million from the end of the previous fiscal year. On the assets side, notes and accounts receivable and inventories declined due to decreased sales. Total liabilities decreased ¥2,837 million from the end of the previous fiscal year mainly due to drops in notes and accounts payable reflecting decreased production, and other current liabilities. Total net assets declined ¥1,720 million from the end of the previous fiscal year mainly due to the booking of a net loss for the first two quarters of fiscal 2010 and the payment of dividends, despite an increase in foreign currency translation adjustments.

(2) Analysis of Cash Flows
Cash and cash equivalents at the end of the second quarter under review amounted to ¥16,081 million, an increase of ¥1,471 million from the end of previous fiscal year. Net cash of ¥1,535 million provided by operating activities was partly offset by net cash of ¥164 million used in investing activities and net cash of ¥677 million used in financing activities.

(Cash flows from operating activities)
Operating activities in the second quarter provided net cash of ¥1,535 million. This was mainly due to decreases in trade receivables and inventories, which were offset by the booking of a net loss for the second quarter before income taxes of ¥2,377 million.

(Cash flows from investing activities)
Investing activities in the first quarter used net cash of ¥164 million. This was mainly due to the acquisition of property, plant and equipment, which was offset by proceeds from the withdrawal of time deposits and the redemption of marketable securities.

(Cash flows from financing activities)
Financing activities in the second quarter used net cash of ¥677 million, due mainly to the payment of dividends.

3. Qualitative Information Related to Consolidated Business Outlook

In regard to matters concerning forecasts, Star Micronics has revised forecasts announced on April 9, 2009, factoring in the consolidated performance over the first half of fiscal 2010 and the outlook going forward. For further details, please see the press release titled “Differences Between First-half Fiscal 2010 Consolidated Forecasts and Results, and Revision of Full-year Fiscal 2010 Consolidated Forecasts” issued separately today (September 30, 2009).

These forecasts assume second-half exchange rates of ¥95/US$1 and ¥125/€1.

4. Others

(1) Changes in the status of important subsidiaries during the quarter (changes in the status of specified subsidiaries resulting in changes in the scope of consolidation):
None.

(2) Application of simplified accounting methods and special accounting methods in the preparation of quarterly consolidated financial statements
None.

(3) Changes in accounting principles, procedures and presentation methods in the preparation of quarterly consolidated financial statements

1) Application of “Accounting Standards for Quarterly Financial Statements”
Effective from the current fiscal year, Star Micronics has applied the “Accounting Standards for Quarterly Financial Statements” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 12, March 14, 2007) and the “Guidance on Accounting Standards for Quarterly Financial Statements” (ASBJ Guidance No. 14, March 14, 2007). In addition, the quarterly consolidated financial statements are prepared in accordance with the “Regulations for Quarterly Consolidated Financial Statements.”

2) Application of “Accounting Standards for Measurement of Inventories”
Previously, inventories have been stated principally at cost, with cost being determined by the annual average method. (For consolidated overseas subsidiaries, inventories are stated principally at the lower of cost or market value, with cost being determined by the first-in first-out method.) However, effective from the first quarter of the current fiscal year, Star Micronics has applied the “Accounting Standards for Measurement of Inventories” (ASBJ Statement No. 9, July 5, 2006). For Star Micronics and consolidated domestic subsidiaries, inventories are stated principally at cost by the annual average method (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins). For consolidated overseas subsidiaries, inventories are calculated principally at the lower of cost or market value determined by the first-in first-out method.

This change had no effect on income.

3) Application of “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”
Effective from the first quarter of the current fiscal year, Star Micronics has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force No. 18, May 17, 2006), and made the necessary amendments to the consolidated financial statements. As a result of this change, compared with the previous method, for the first half of fiscal 2010, the operating loss would have increased ¥7,334 thousand, and the ordinary loss and net loss would both have increased ¥151,667 thousand.

This change had negligible effect on segment information.

4) Application of “Accounting Standards for Lease Transactions”
Star Micronics used to account for finance lease transactions that do not transfer ownership by an accounting method based on the method used for ordinary lease transactions. However, effective from the first quarter of the current fiscal year Star Micronics has applied the “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13, originally issued on June 17, 1993 and revised on March 30, 2007) and the “Guidance on Accounting Standards for Lease Transactions” (ASBJ Guidance No. 16, originally issued on January 18, 1994 and revised on March 30, 2007), which became applicable from fiscal years starting on or after April 1, 2008, and changed to an accounting method that is based on the method used for ordinary purchases and sales transactions.

To calculate the depreciation of leased assets related to finance lease transactions that do not transfer ownership, Star Micronics applies the straight-line method that assumes zero residual value and the leasing term to be the useful life. For finance lease transactions that do not transfer ownership that begin prior to the fiscal year when these revised standards are first applied, Star Micronics continues to use an accounting method based on the method used for ordinary lease transactions.

This change had negligible effect on income.

(4) Additional Information
Effective from the first quarter of the current fiscal year, Star Micronics and consolidated domestic subsidiaries have principally reassessed the useful lives of machinery and equipment, on the occasion of the revision of the corporate taxation legislation in fiscal 2008.

This change had negligible effect on income.