January 7, 2010

Fiscal 2010 Third-quarter Consolidated Earnings Report

Company name: Star Micronics Co., Ltd. Stock listing: First Section, Tokyo Stock Exchange
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Scheduled release of fiscal 2010 Third-quarter Business Report: January 13, 2010
Scheduled payment of dividends: －

(Figures less than one million are rounded down)

1. Results for the Third Quarter of Fiscal 2010 (March 1, 2009 to November 30, 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)	%
Nine months ended November 30, 2009	21,094	—	(2,878)	—	(2,753)	—	(3,530)	—
Nine months ended November 30, 2008	47,890	(10.7)	8,516	(20.0)	8,804	(20.0)	5,795	(15.2)

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
Nine months ended November 30, 2009	(76.74)	—
Nine months ended November 30, 2008	111.73	111.68

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	(¥ million)	(¥ million)	%	(¥)
As of November 30, 2009	54,409	45,940	83.1	1,025.96
As of February 28, 2009	64,204	52,986	81.5	1,114.21

Reference: Shareholders' Equity
As of November 30, 2009 ¥45,211 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 ending February 28, 2010	—	11.00	—		
Year ending February 28, 2010 (projected)				11.00	22.00

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

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 November 30, 2009: 51,033,234 shares As of February 28, 2009 : 51,033,234 shares

(ii) Number of treasury stock at period-end

As of November 30, 2009: 6,965,657 shares As of February 28, 2009 : 4,065,150 shares

(iii)Average number of outstanding shares (during the nine months ended November 30)

As of November 30, 2009: 46,001,146 shares As of November 30, 2008 : 51,867,087 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.

For matters concerning business forecasts, please see section “3. Qualitative Information Related to Consolidated Business Outlook” on page 4.

2. 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 three quarters of fiscal 2010, the fiscal year ending February 28, 2010, the European and the U.S economies remained generally weak, although both have been bottoming out since the latter half of the period. In Asia, economic recovery continued, primarily in China, while the Japanese economy remained sluggish, mirroring Europe and the U.S. Regarding exchange rates, the yen was strong compared with 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, POS printers and mobile phones, mainly due to the impact of ongoing 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 large impact of reduced capital investment, the Machine Tools and Special Products segments posted large sales declines. In the Components Segment as well, orders failed to grow and sales declined sharply due principally to increasingly fierce price-based competition among rival manufacturers. In the Precision Products Segment, sales of wristwatch components decreased, although sales of components for small hard disk drives (HDDs) and car audio products are improving.

As a result of the above factors, Star Micronics reported a substantial year-on-year drop of 56.0% in consolidated sales to ¥21,094 million in the first three quarters of fiscal 2010. As regards profits, although the Group endeavored to improve earnings by rigorously reducing expenses and adopting other measures, the large sales decline led to an operating loss of ¥2,878 million and an ordinary loss of ¥2,753 million. The net loss for the period was ¥3,530 million, due to increased income taxes.

Performance by segment was as follows:

(Special Products)

In a persistently weak market environment, the Group carried out finely tuned marketing activities in various regions, and continued cultivating markets in emerging nations and proposal-based marketing activities for customers in anticipation of a future recovery in demand. However, companies continued to show a cautious stance toward new investment, with projects under negotiation either being postponed or cancelled, despite signs of recovering sales in some regions, such as South America and China. Together with the negative impact of exchange rates, POS printers saw sales of both dot impact and thermal printers fall sharply.

As a result of the above, segment sales declined a substantial 47.3% to ¥4,888 million, while operating income fell 87.2% to ¥186 million.

(Components)

In this business segment, the Group sought to further reduce costs through local component procurement and by making investments aimed at rationalization to boost productivity, while working to win new customers. In the core mobile phone market, although production cutbacks by mobile phone makers eased, the emergence of rival manufacturers and calls for price reductions created an increasingly difficult order environment, leading to lower sales mostly of receivers and speakers. Sales of electronic buzzers for automobiles also decreased.

As a result of the foregoing, the segment saw sales fall a significant 45.0% to ¥6,062 million and reported an operating loss of ¥1,050 million.

(Machine Tools)

In CNC automatic lathes, demand remained low both in Japan and overseas after having declined rapidly from last fiscal year, as capital investment in the core European market and elsewhere remained restrained overall. Meanwhile, demand in the Asia region has been recovering, driven mainly by internal demand in China. Against this backdrop, the Group continued to slash production to optimize inventory levels, and also conducted sales activities focused on the medical industry while actively taking part in exhibitions. Nevertheless, the Group could not overcome the challenging marketplace conditions.

As a result of the above, segment sales declined sharply by 68.2% to ¥7,738 million and an operating loss of ¥605 million was recorded.

In other news, the Group reviewed its sales framework and decided to dissolve Star Micronics AB, a sales subsidiary in Sweden, in August 2009.

(Precision Products)
Sales of wristwatch components declined substantially, with demand failing to recover despite customers finally completing production cutbacks in the third quarter. Sales of non-wristwatch components declined in year-on-year terms, despite a steady recovery in sales of car audio components produced in overseas plants and small HDD components. The overall decrease in non-wristwatch component sales was due to the impact of sales declines at the beginning of the fiscal year.

As a result, the segment saw sales drop 26.4% to ¥2,405 million and recorded an operating loss of ¥109 million.

The Group reviewed its sales framework, dissolving Micro Kikugawa Company, a domestic production subsidiary, at the end of October 2009.

*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.

Performance by geographical segment was as follows:

(Japan)
In Japan, sales decreased sharply, especially of machine tools and POS printers for Europe and the U.S. As a result, net sales were ¥13,729 million, and an operating loss of ¥2,536 million was reported.

(Europe)
In Europe, results were partly impacted by exchange rate conversions, as well as by a substantial decline in machine tool sales. Net sales were ¥5,015 million and operating income was ¥383 million.

(North America)
In North America, sales of machine tools and POS printers decreased significantly. As a result, net sales were ¥4,256 million and an operating loss of ¥157 million was reported.

(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, despite visibly recovering economic conditions in the latter half of the period. Net sales were ¥8,905 million and operating income was ¥34 million.

2. Qualitative Information Concerning Consolidated Financial Position

(1) Changes in Consolidated Financial Position
Total assets at the end of the third quarter under review were ¥54,409 million, ¥9,794 million less than at February 28, 2009. This mainly reflected lower notes and accounts receivable, and inventories because of lower sales. Total liabilities decreased ¥2,748 million from the end of the previous fiscal year mainly due to drops in notes and accounts payable and other current liabilities. Total net assets declined ¥7,046 million from the end of the previous fiscal year mainly due to the booking of a net loss for the first nine months of fiscal 2010, as well as the repurchase of the Company's own shares and the payment of dividends.

(2) Analysis of Cash Flows
Cash and cash equivalents at November 30, 2009 amounted to ¥13,133 million, a ¥1,477 million year-on-year decrease. Net cash of ¥2,964 million provided by operating activities was outweighed by net cash of ¥817 million used in investing activities and net cash of ¥3,946 million used in financing activities.

(Cash flows from operating activities)
Operating activities provided net cash of ¥2,964 million despite the ¥3,146 million loss before income taxes and minority interests. This result was mainly due to a decrease in inventories.

(Cash flows from investing activities)
Investing activities used net cash of ¥817 million, principally for the acquisition of property, plant and equipment.

(Cash flows from financing activities)
Financing activities used net cash of ¥3,946 million, due to the payment of dividends and purchase of the Company's own shares.

3. Qualitative Information Related to Consolidated Business Outlook
There is no change to the consolidated business forecasts issued on September 30, 2009.

4. Others

(1) Changes in the status of important subsidiaries during the first nine months of fiscal 2010 (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.
Compared with the previous method, for the first nine months of fiscal 2010, this change had the effect of increasing the operating loss, ordinary loss and loss before income taxes and minority interests by ¥39,443 thousand.

The effect on segment information is shown in the applicable places.

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 nine months of fiscal 2010, this change had the effect of increasing the operating loss by ¥11,147 thousand, and the ordinary loss and loss before income taxes and minority interests each by ¥165,828 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 no 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.