MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Years ended February 28, 2009 and February 29, 2008

Business Environment

For fiscal 2009, the fiscal year ended February 28, 2009, Star Micronics experienced a severe operating environment in which demand from capital expenditures declined due to the impact of the worldwide economic slowdown. Toward the end of the fiscal year in particular, the operating environment rapidly worsened and demand for the Company's products slumped in all business segments and in all regions in which business is being developed, including emerging nations. Moreover, the yen was stronger than in the previous fiscal year, particularly against the U.S. dollar and the euro.

Net Sales

(Millions of yen)

2008	**2009**	Change (%)
¥73,884	**¥56,953**	(22.9)

Net sales decreased year on year due mainly to the sharp drop in orders in all business segments toward the end of the fiscal year.

Operating Income

(Millions of yen)

2008	**2009**	Change (%)
¥14,652	**¥8,545**	(41.7)

Operating income substantially declined because sales of mainstay machine tools and point-of-sale (POS) printers both decreased.

Net Income

(Millions of yen)

2008	**2009**	Change (%)
¥8,080	**¥4,338**	(46.3)

Net income also substantially decreased year on year due to the posting of a loss on cancellation of a transfer-of-asset agreement under other income in addition to the decreased sales in mainstay businesses.

Dividends per Share

(Yen)

2008	**2009**	Change (Yen)
¥56	**¥45**	¥(11)

The Company reduced the fiscal 2009 annual dividend per share by ¥11 from fiscal 2008 to ¥45, reflecting reduced net sales and earnings resulting from the rapid worsening of the business environment.

Total Assets

(Millions of yen)

2008	**2009**	Change (%)
¥86,375	**¥64,205**	(25.7)

Total assets decreased from the end of the previous fiscal year because of reduced cash and cash equivalents in addition to decreases in trade notes and accounts receivable as a result of lower sales.

Free Cash Flows

(Millions of yen)

2008	**2009**	Change (%)
¥2,594	**¥4,838**	86.5

Free cash flow increased from the previous fiscal year because of reduced net cash used in investing activities resulting from redemption of marketable securities and decreased purchases of property, plant and equipment. This was despite reduced income before income taxes and minority interests, reflecting the drop in net sales.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

2008	**2009**	Change (%)
¥5,084	**¥3,056**	(39.9)

In fiscal 2008 there was a one-time increase in capital expenditures to increase and strengthen production capabilities particularly in the Components Segment and the Machine Tools Segment. Fiscal 2009 capital expenditures were approximately on par with other years.

Overseas Net Sales

(Millions of yen)

	2008	**2009**	Change (%)
Europe	¥27,470	**¥19,056**	(30.6)
North America	13,964	**11,222**	(19.6)
Asia	20,567	**18,064**	(12.2)
Japan	11,883	**8,611**	(27.5)

Overseas net sales declined year on year in all regions due to sudden drops in demand in all regions caused by the worldwide economic slowdown.

SPECIAL PRODUCTS SEGMENT

Decreased sales and earnings

In the Special Products Segment, the main products are point-of-sale (POS) printers and other products. Sales fell 31.1% year on year by ¥5,336 million to ¥11,813 million (US$120,541 thousand).

The Group has been vigorously conducting marketing activities for point-of-sale (POS) printers in the markets of emerging nations as well as in the US and European markets. To this end, the Group has been strengthening collaboration with agents and identifying new demand, based on a product lineup that has been steadily refined. However, this segment faced a severe business environment characterized by waning capital investment sentiment resulting from the worldwide economic slowdown as well as the impact of the strong yen against foreign currencies.

Developing strategies with an awareness of Eastern Europe and other emerging nations

By region, this segment has been significantly impacted by slumps in personal consumption in Europe and Asia. In Europe, the Company will continue to strengthen sales strategies in Eastern Europe and elsewhere. In Asia, we expect business to recover quicker than in other regions, centered on devices for lottery ticket terminals in China and elsewhere. In the Americas, we are receiving business inquiries from Argentina, Venezuela and other South American nations in relation to tax collection systems for governments and public authorities.

Shipments of POS Printers (Thousands of units)

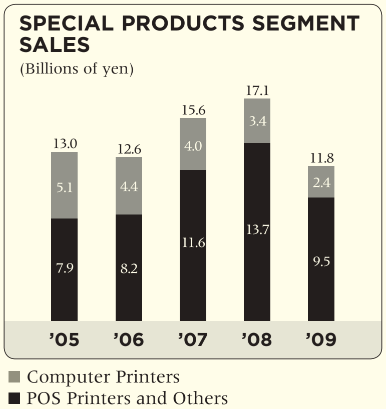
	2008	**2009**	Change (%)
Europe	200	**144**	(28.0)
Americas	233	**208**	(10.7)
Asia	146	**109**	(25.3)
Japan and elsewhere	34	**28**	(17.6)
Total	614	**488**	(20.5)

Aiming to increase market share with high-value-added products

The Company launched the HSP7000 model, a hybrid combination printer that can produce both receipts and checks. Going forward, we will differentiate this product, and leverage the competitive power of our high-value-added products to further increase market share.

Sales of computer printers, a business we decided to halt, thus ceasing activities in the year under review, decreased 31.2% year on year to ¥2,353 million (US$24,010 thousand).

As a result of the above, operating income in the Special Products Segment declined 59.8% year on year by ¥2,381 million to ¥1,601 million (US$16,337 thousand).



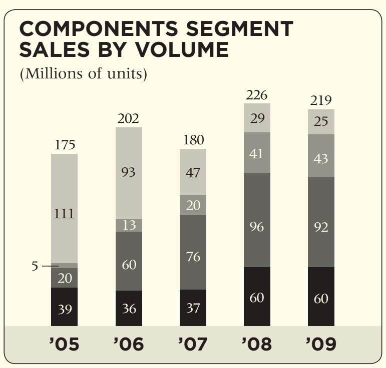
COMPONENTS SEGMENT

Adversely impacted by production cutbacks by mobile phone manufacturers

In this segment, Star Micronics is aiming to become a comprehensive manufacturer of micro audio components, and offers a broad lineup of products including microphones, receivers, speakers and electronic buzzers. The Company has been working to diversify its users beyond mobile phone manufacturers, mainly through the supply of components for automobile ETC terminals, and for use in a variety of digital devices.

In the mobile phone market, which is the core market of this business segment, sales have climbed steadily amid growth in China, India and other markets where new subscribers are increasing. However, the sales increase was negated by drastic production cutbacks by mobile phone manufacturers toward the end of the fiscal year.

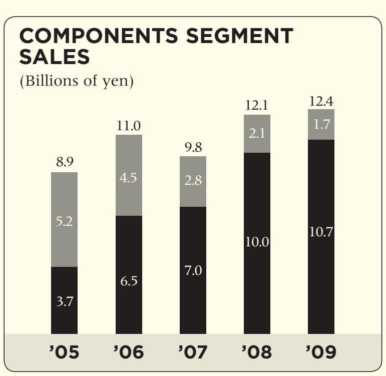
Firm sales of mainstay components of microphones, receivers and speakers



■ Buzzers ■ Speakers
■ Receivers ■ Microphones & Others

By product, microphones achieved strong unit sales of 59 million units in a severe business environment as a result of new compact, highly functional microphones being taken up for mid- to high-end mobile phones. Sales of receivers amounted to 92 million units, down 4.2% year on year. Furthermore, sales of speakers increased 4.9% year on year on a unit volume basis to 43 million units, reflecting the use of new compact speakers that were mass-produced last fiscal year in mid- to high-end mobile phones, adding to sales of conventional-sized speakers. Meanwhile, although electronic buzzers have won strong support in the automotive sector for being environmentally friendly and meeting required safety standards, unit sales dropped 13.8% year on year to 25 million units, due to a slump in demand in the automotive market.

Increased sales and earnings from significantly improved profitability due mainly to yield improvements of products



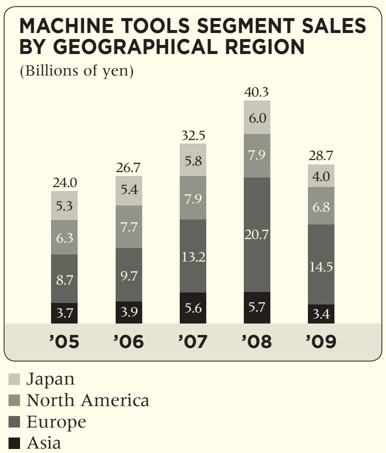
■ Buzzers
■ New Components

Sales in this segment increased 2.4% year on year by ¥290 million to ¥12,352 million (US$126,041 thousand). As a result of the rise in sales, improved productivity and other factors, operating income soared a significant 424.6% year on year by ¥1,002 million to ¥1,238 million (US$12,633 thousand). The operating income ratio was 10.0%.

In fiscal 2010, in the mobile phone market, which hitherto has been growing steadily, the Group is predicting negative growth. Moreover, mobile phone manufacturers are increasingly making stronger calls for discounts on products. Consequently, going forward we will leverage the audio technologies we have cultivated to develop high added-value products, and implement other new steps.

MACHINE TOOLS SEGMENT

Reduced sales and earnings in the wake of significant adverse impact of worldwide economic slowdown



Star Micronics' CNC automatic lathes have earned worldwide acclaim. Key products are the SV series, ideal for the high-precision complex machining required in the manufacture of medical and other components, the top-of-the-range ECAS series, which incorporates a motion control system, and the SB series of machine tools entirely made in China that offer superior cost-performance.

With CNC automatic lathes, the Group worked to identify customers in the mainstay US and European markets as well as the emerging markets. We enhanced the service organization in Europe and focused on training local technical staff in Asia and South America. We also strengthened the network of agents in Japan. Furthermore, the Group established a sales subsidiary in Sweden, which is the largest market in northern Europe, with the aim of strengthening the direct-sales framework.

Orders had been generally decreasing from earlier in the fiscal year, but then fell drastically due to a substantial weakening of capital investment sentiment due to the impact of the worldwide economic slowdown resulting from the financial crisis in the second half of the fiscal year.

Amid this extremely harsh business environment, segment sales declined 28.7% year on year by ¥11,568 million to ¥28,736 million (US$293,224 thousand). Operating income decreased 38.8% year on year by ¥4,648 million to ¥7,323 million (US$74,724 thousand), resulting from substantially reduced sales. Reflecting the decreased sales and other factors, the operating income ratio fell 4.2 percentage points year on year to 25.5%.

Sales decreased significantly in Japan, Asia and Europe, but were firm in North America

Sales substantially fell year on year by region as well, including in Japan, Asia and Europe. The number of units sold decreased 28.4% year on year to 1,894 units. Overseas sales, as a percentage of total segment sales, rose by 1.0 percentage point year on year to 86.1%.

Regarding the market environment in each region in the fiscal year under review, sales volume in the US market was largely on par with the previous year due to continued firm sales to the medical-equipment sector. However, in the European, Asian and Japanese markets, sales to the automobile, electrical machinery and general machinery sectors plummeted towards the end of the fiscal year.

On the production front, the Group is scaling back operations at plants in Japan and overseas to rigorously reduce inventories.

Machine Tools Segment Sales Volume by Geographical Region (Units)

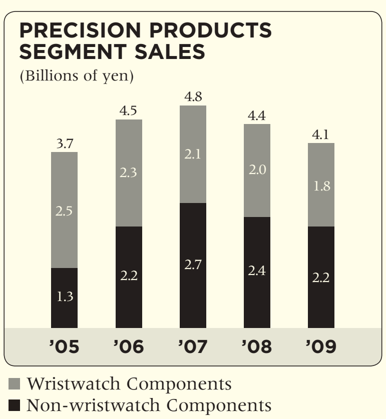
	2008	**2009**	Change (%)
Japan	556	**348**	(37.4)
Asia	703	**474**	(32.6)
Europe	1,037	**715**	(31.1)
North America	351	**357**	1.7
Total	2,647	**1,894**	(28.4)

PRECISION PRODUCTS SEGMENT

The products in this segment are divided into two main areas: wristwatch components, a business the Company has been involved in since it was founded, and precision components (also referred to as non-wristwatch components).

As the market for wristwatch components is mature, with little prospect for high growth over the long term, the segment is striving to increase earnings by strategically focusing on markets for non-wristwatch components. More specifically, Star Micronics is applying its precision processing technology to fields where precision components are difficult to manufacture: hard disk drive (HDD) components, medical components, such as dental drills, implant parts and bone screws for bone-setting, car audio components and optical fiber connector parts.

In non-wristwatch components, sales of car audio components were firm, but HDD components struggled



Sales of wristwatch components declined 7.5% year on year to ¥1,805 million (US$18,418 thousand) due to the impact of production cutbacks implemented by wristwatch manufacturers amid the continuing contraction of the watch market. Regarding non-wristwatch components, sales of components for car audio equipment produced by our subsidiary in China were strong. There were robust orders for mainstay HDD components at our subsidiary established in Thailand in the previous fiscal year, and improved productivity also contributed to a steady business performance. However, sales of components for portable music players were sluggish, causing sales to decline. As a result, sales of non-wristwatch components fell 7.1% year on year to ¥2,246 million (US$22,918 thousand). Non-wristwatch components accounted for 55.4% of segment sales.

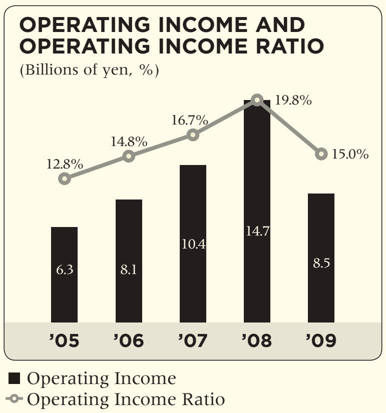
Decreased sales and earnings for the entire segment

As a result of the above, segment sales declined 7.3% year on year by ¥317 million to ¥4,052 million (US$41,347 thousand). Operating income fell 37.1% year on year by ¥315 million to ¥535 million (US$5,459 thousand), mainly due to the decline in sales, while the operating income ratio decreased 6.3 percentage points to 13.2%.

INCOME ANALYSIS

Profitability declined due to reduced sales in core businesses

For fiscal 2009, the fiscal year under review, Star Micronics reported consolidated sales of ¥56,953 million (US$581,153 thousand), down 22.9% year on year by ¥16,931 million. There were increased sales in the Components Segment, but sales significantly decreased in the Machine Tools Segment and the Special Products Segment. The cost of sales fell

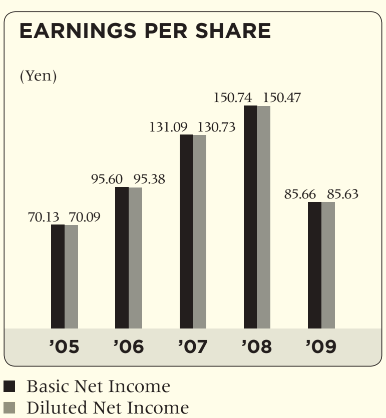


¥8,672 million, or 20.5%, to ¥33,535 million (US$342,194 thousand). As a result, gross profit decreased ¥8,259 million, or 26.1%, year on year to ¥23,418 million (US$238,959 thousand). The gross profit margin declined 1.8 percentage points to 41.1%. This was primarily due to the high-margin Machine Tools Segment accounting for a decreased share of total sales at 50.5%, and a major decrease in sales of POS printers in the Special Products Segment.

Selling, general and administrative (SG&A) expenses decreased ¥2,152 million year on year, or 12.6%, to ¥14,873 million (US$151,765 thousand). This fall was due mainly to lower direct costs, such as sales commissions and other items that fell in line with decreased sales.

As a result of the above, operating income decreased ¥6,107 million, or 41.7%, to ¥8,545 million (US$87,194 thousand), while the operating income ratio fell 4.8 percentage points to 15.0%.

Other expenses—net posted due to a loss on cancellation of transfer-of-asset agreement and other factors

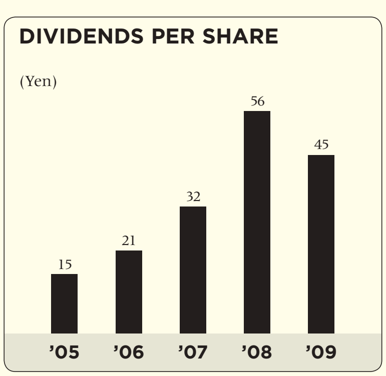


Other expenses–net totaled ¥984 million (US$10,041 thousand) compared to other expenses–net of ¥271 million in the previous fiscal year. This mainly reflected the fact that interest and dividend income decreased 24.1% year on year by ¥171 million to ¥540 million (US$5,510 thousand), as well as a loss on disposals of property, plant and equipment of ¥409 million (US$4,174 thousand), a loss on write-down of investment securities of ¥344 million (US$3,510 thousand), and a loss on cancellation of transfer-of-asset agreement of ¥527 million (US$5,378 thousand). The exchange loss–net improved ¥116 million, or 41.9%, to ¥161 million (US$1,643 thousand).

As a result, income before income taxes and minority interests decreased ¥6,820 million, or 47.4%, to ¥7,561 million (US$77,153 thousand), while total income taxes were ¥3,147 million (US$32,112 thousand). Net income after deducting minority interests decreased ¥3,742 million, or 46.3%, year on year to ¥4,338 million (US$44,265 thousand).

Basic net income per share decreased ¥65.08 to ¥85.66 (US$0.87) and diluted net income per share decreased ¥64.84 to ¥85.63 (US$0.87).

Regarding future dividends, in the medium term we aim to achieve a total shareholder return ratio of 60.0% or more and dividend on equity (DOE) of 6.0% or more



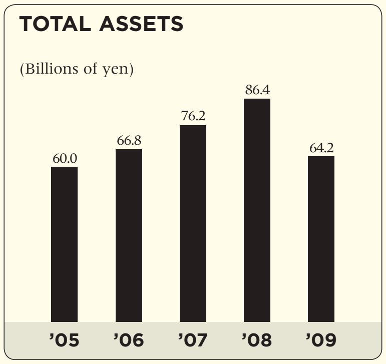
Star Micronics has decided to lower the annual dividend for the year under review by ¥11 to ¥45 (US$0.46) per share, representing a dividend payout ratio of 52.5%, an increase of 15.3 percentage points year on year. Total dividends decreased ¥688 million, or 22.9%, to ¥2,314 million (US$23,612 thousand). For fiscal 2010, the Company plans to lower the annual dividend by ¥23 to ¥22 per share.

Regarding future dividends, the Company, after taking the future operating environment and other factors into account, aims to achieve a total shareholder return ratio* of 60.0% or more over the medium term. Dividend on equity (DOE), which reflects capital efficiency and the dividend payout ratio, will also be considered in setting future dividends.

*The total shareholder return ratio is the ratio of dividends paid and treasury stock acquired to consolidated net income.

FINANCIAL POSITION & LIQUIDITY

Total assets declined due mainly to decreased cash and cash equivalents and trade notes and accounts receivable, as a result of lower sales



Total current assets as of February 28, 2009 were ¥44,762 million (US$456,755 thousand), a decrease of ¥18,390 million, or 29.1%, compared with the previous fiscal year-end. This decrease reflected a fall in cash and cash equivalents of ¥7,213 million, or 33.1%, to ¥14,611 million (US$149,092 thousand), a drop in short-term investments of ¥2,695 million, or 65.4%, to ¥1,427 million (US$14,561 thousand), and a decrease in trade notes and accounts receivable of ¥8,287 million, or 46.0%, to ¥9,717 million (US$99,153 thousand), as a result of lower sales. Inventories increased ¥53 million, up 0.3% year on year, to ¥15,490 million (US$158,061 thousand).

Net property, plant and equipment decreased ¥2,559 million, or 14.4%, to ¥15,169 million (US$154,786 thousand). This was mainly because machinery and equipment declined ¥8,050 million, or 22.8%, to ¥27,278 million (US$278,347 thousand). Total investments and other assets decreased ¥1,221 million, or 22.2%, year on year to ¥4,274 million (US$43,612 thousand).

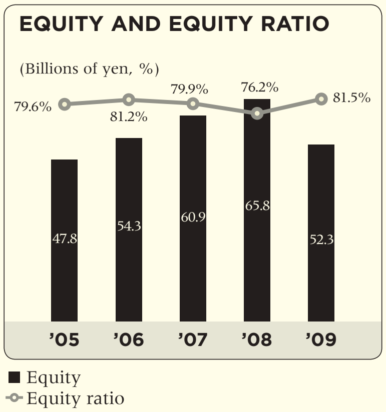
As a result of the above, total assets decreased ¥22,170 million, or 25.7%, year on year to ¥64,205 million (US$655,153 thousand).

Total liabilities decreased due to decreased trade notes and accounts payable as a result of lower sales

On the other side of the balance sheet, current liabilities decreased ¥8,317 million, or 43.6%, to ¥10,760 million (US$109,796 thousand). This fall reflected a decrease in trade notes and accounts payable of ¥4,661 million, or 58.9%, to ¥3,248 million (US$33,143 thousand) as a result of lower sales.

Total long-term liabilities decreased ¥237 million, or 34.1%, to ¥459 million (US$4,684 thousand).

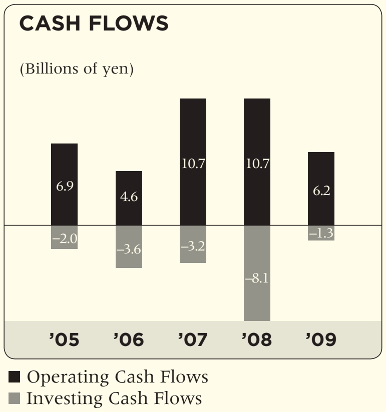
Equity fell due to lower foreign currency translation adjustments



Equity fell ¥13,511 million, or 20.5%, to ¥52,332 million (US$534,000 thousand), mainly as a result of lower foreign currency translation adjustments. Total equity including minority interests was ¥52,986 million (US$540,673 thousand). The equity ratio rose 5.3 percentage points to 81.5%, while equity per share decreased ¥113.38 to ¥1,114.21.

CASH FLOWS

Net cash provided by operating activities exceeded net cash used in investing activities



Net cash provided by operating activities decreased ¥4,514 million to ¥6,152 million (US$62,775 thousand). The main source of cash was income before income taxes and minority interests of ¥7,561 million (US$77,153 thousand), down ¥6,820 million, reflecting substantially worsened operating results. However, this was supplemented by a net cash inflow of ¥675 million (US$6,887 thousand) from changes in trade receivables, trade payables, and inventories, a difference of ¥4,623 million from the net cash outflow in the previous fiscal year.

Net cash used in investing activities was ¥1,314 million (US$13,408 thousand), a decrease of ¥6,758 million year on year. This chiefly reflected an inflow from a decrease of short-term investments of ¥4,473 million to ¥2,196 million (US$22,408 thousand) and a decrease of ¥1,345 million in cash used for purchases of property, plant and equipment to ¥3,081 million (US$31,439 thousand).

Net cash used in financing activities increased mainly due to the purchase of treasury stock.

Net cash used in financing activities was ¥9,077 million (US$92,622 thousand), an increase of ¥6,925 million from the previous fiscal year. This was mainly the result of an increase of ¥861 million in dividends paid to shareholders to ¥3,219 million (US$32,847 thousand), despite an inflow of ¥2,000 million from short-term bank loans.

As a result of the above, after foreign currency translation adjustments on cash and cash equivalents of ¥2,974 million (US$30,347 thousand), cash and cash equivalents as of February 28, 2009 totaled ¥14,611 million (US$149,092 thousand), a net decrease of ¥7,213 million year on year.

CAPITAL EXPENDITURES AND R&D EXPENSES

Capital expenditures declined year on year

Capital expenditures for the year totaled ¥3,056 million (US$31,184 thousand), a decrease of ¥2,028 million, or 39.9%, compared to the previous fiscal year. In fiscal 2010, the Company is forecasting capital expenditures of ¥3,017 million.

Expenditures in the Special Products Segment fell ¥579 million to ¥301 million (US$3,072 thousand). In fiscal 2010, the Company is budgeting expenditures in this segment in the amount of ¥195 million, mainly for dies for new models.

Expenditures in the Components Segment decreased ¥1,169 million to ¥568 million (US$5,796 thousand). In fiscal 2010, we estimate that ¥1,210 million will be spent on investments such as machinery and equipment for streamlining, raising production efficiency and improving quality for micro audio components.

In the Machine Tools Segment, expenditures fell ¥453 million year on year to ¥1,084 million (US$11,061 thousand). In fiscal 2010, we anticipate that ¥879 million will be spent on investments such as machinery and equipment for streamlining and raising production efficiency for machine tools, and new product implements.

In the Precision Products Segment, expenditures decreased ¥47 million to ¥771 million (US$7,867 thousand). ¥486 million is budgeted for fiscal 2010.

R&D expenses also declined year on year

Research and development (R&D) expenses in fiscal 2009 decreased ¥159 million, or 7.2%, to ¥2,055 million (US$20,969 thousand). This represented 3.6% of total sales, an increase from the previous fiscal year.

Star Micronics had been pursuing ongoing R&D activities for micro pumps for gases and liquids, and fluid components and devices for sensors, but these development activities were halted because there seemed to be no commercialization prospects. Subsequently, we newly reorganized our R&D organization to implement integrated and efficient activities in relation to R&D, technology development, the introduction of new technologies, the conducting of technological and market surveys, and quality control. Going forward, we will strengthen coordination in all our businesses, develop our alliances and coordination with external companies and institutions, and improve our technological levels throughout the entire Company.

We will undertake the following initiatives in each business segment.

Special Products

We will introduce and make use of three-dimensional design CAD and various design support tools, establish a full-time team to develop worldwide the software characteristically used in the Company's products, and advance our energy-saving designs, with the overriding aim of refining our framework for developing new products with a competitive edge in a timely manner.

Components

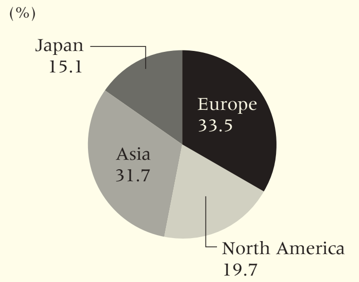
To expand sales of our lineup of highly profitable products, we will vigorously conduct product planning with manufacturers involved with audio accessories such as automotive microphones, insert headphones and hearing aids, and then flexibly develop the products called for by this planning.

Machine Tools

We are continuing to develop Swiss-type automatic lathes capable of high-precision, complex geometry machining targeted at the U.S. and European markets. We will also implement initiatives for non Swiss-type lathes, and develop and continuously improve the operability and functionality of peripheral equipment such as the support software for creating machining programs for new products. Moreover, on the environmental front almost all our products except for NC equipment satisfy the RoHS directives, and we are progressively switching over to powder coatings.

SALES FRAMEWORK AND NET SALES BY REGION

NET SALES BY REGION



A significant proportion of Star Micronics' products are sold in international markets. To provide customer support globally, the Company operates an extensive network of overseas sites. (See table)

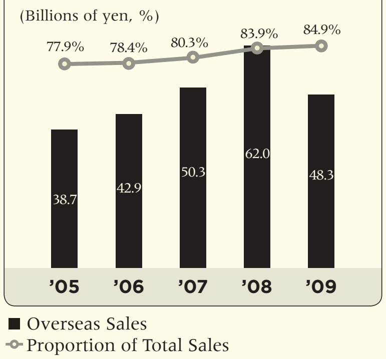
	U.K.	Germany	France	Switzerland	Sweden
Special Products	Star Micronics Europe Ltd.				
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG	Star Micronics AB

	U.S.	Thailand	Hong Kong	China
Special Products	Star Micronics America, Inc.*		Star Micronics Asia Ltd.	
Machine Tools	Star CNC Machine Tool Corporation	Star Micronics (Thailand) Co., Ltd.		Shanghai Xing-ang Machinery Co., Ltd.

*Star Micronics America, Inc. markets components in addition to special products.

Overseas sales as a proportion of total sales increased 1.0 percentage point to 84.9%. Sales declined in all regions

OVERSEAS SALES AND PROPORTION OF TOTAL SALES



In the fiscal year under review, overseas sales as a proportion of total sales increased 1.0 percentage point to reach 84.9%.

By region, in Europe, net sales decreased ¥8,414 million to ¥19,056 million (US$194,449 thousand), representing 33.5% of total sales, a 3.7 percentage point decrease from the previous fiscal year.

In North America, net sales fell ¥2,742 million to ¥11,222 million (US$114,510 thousand). The share of total sales in North America rose 0.8 of a percentage point to 19.7%.

Net sales in Asia decreased ¥2,503 million to ¥18,064 million (US$184,327 thousand). The share of total sales in Asia increased 3.9 percentage points to 31.7%.

In Japan, the main products are machine tools and precision products. Domestic sales decreased ¥3,272 million to ¥8,611 million (US$87,867 thousand), representing 15.1% of total sales, down 1.0 percentage point year on year.