NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2009 and February 29, 2008

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Star Micronics Co., Ltd. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Financial Instruments and Exchange Law (formerly, the Securities and Exchange Law) in Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

Certain reclassifications have been made in the 2008 consolidated financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at the rate of ¥98 to $1, the approximate rate of exchange at February 28, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation and Investments in Unconsolidated Subsidiaries and Associated Companies

The accompanying consolidated financial statements as of February 28, 2009 include the accounts of the Company and its 21 significant (21 in 2008) subsidiaries (together, the "Group").

Under the control or influence concept, a company in which the parent company, directly or indirectly, is able to exercise control over operations is fully consolidated, and a company over which the Group has the ability to exercise significant influence is accounted for by the equity method.

The fiscal periods of consolidated subsidiaries in Japan end at the end of February, and those of consolidated subsidiaries outside of Japan end on December 31. Significant transactions that occur for the period from January 1 to the end of February are reflected in the accompanying consolidated financial statements.

Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profits resulting from intercompany transactions were eliminated.

Investments in unconsolidated subsidiaries and associated companies are accounted for on a cost basis. The effect on the consolidated financial statements of not applying the equity method is not material.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposits and investment trusts in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories are substantially stated at cost determined by the average method. The inventories held by certain consolidated subsidiaries are generally stated at the lower of cost (first-in, first-out) or market.

d. Marketable and Investment Securities

All investment securities are available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed by the declining-balance method for the Company and its consolidated subsidiaries in Japan and by the straight-line method for substantially all of the consolidated subsidiaries outside of Japan.

Depreciation is based on the estimated useful lives, ranging from 15 to 47 years for buildings and structures and from 2 to 15 years for machinery and equipment.

Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007.

The effect of this treatment was to decrease income before income taxes and minority interests for the year ended February 28, 2009 by ¥126 million ($1,286 thousand).

f. Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees. To provide for the payment of retirement benefits and pension plan payment to employees, the Company recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the projected retirement benefit obligations and the fair value of the pension plan assets at the fiscal year-end.

Actuarial gain and loss is amortized in the years following the year in which the gain or loss is recognized by the straight-line method within a specific period (14 years), which falls within the average remaining years of service of the eligible employees. Unrecognized prior service cost is amortized in the years in which the gain or loss is recognized by the straight-line method within a specific period (14 years), which falls within the average remaining years of service of the eligible employees. Domestic consolidated subsidiaries have lump-sum retirement benefit plans, and certain foreign consolidated subsidiaries have lump-sum retirement benefit plans or defined contribution pension plans.

h. Bonuses to Directors and Corporate Auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

i. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as operating lease transactions if certain “as if capitalized“ information is disclosed in the notes to the lessee’s consolidated financial statements.

j. Research and Development Costs

Research and development costs are charged to income as incurred.

k. Income Taxes

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

m. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

n. Derivatives

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value and the unrealized gains/losses are recognized in income.

o. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share of common stock assumes full conversion of the outstanding stock acquisition rights at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense and net of tax.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

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On March 31, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Current:			
Corporate and other bonds	**¥ 196**		**$ 2,000**
Total	**¥ 196**		**$ 2,000**
Non-current:			
Equity securities	**¥1,452**	¥2,357	**$14,816**
Corporate and other bonds	**1,037**	1,138	**10,582**
Trust fund investment and other	**29**	131	**296**
Total	**¥2,518**	¥3,626	**$25,694**

Information regarding the category of securities classified as available-for-sale at February 28, 2009 and February 29, 2008, was as follows:

	Millions of yen			
2009	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,391**	**¥65**	**¥138**	**¥1,318**
Corporate and other bonds	**1,276**	**3**	**46**	**1,233**
Trust fund investments and other	**29**			**29**

	Millions of yen			
2008	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,573	¥645		¥2,218
Corporate and other bonds	1,133	5		1,138
Trust fund investments and other	50		¥2	48

	Thousand of U.S. dollars (Note 1)			
2009	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$14,194**	**$663**	**$1,408**	**$13,449**
Corporate and other bonds	**13,020**	**31**	**469**	**12,582**
Trust fund investments and other	**296**			**296**

Available-for–sale securities whose fair value is not readily determinable as of February 28, 2009 and February 29, 2008, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Available-for-sale:			
Equity securities	**¥134**	¥140	**$1,367**
Trust fund investments and other		83	
Total	**¥134**	¥223	**$1,367**

Proceeds from sales of available-for-sale securities for the years ended February 28, 2009 and February 29, 2008, were ¥997 million ($10,173 thousand) and ¥300 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2009 were ¥9 million ($92 thousand) and ¥3 million ($31 thousand), respectively. For the year ended February 29, 2008, there was a gross realized loss of ¥0 million and no gain was recognized.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 28, 2009 and February 29, 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Due within one year	**¥196**	¥2,196	**$ 2,000**
Due after one year through five years	**800**	1,138	**8,163**
Total	**¥996**	¥3,334	**$10,163**

4. SHORT-TERM INVESTMENTS

Short-term investments at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Commercial paper		¥1,596	
Certificate of deposit over 3-month period		600	
Deposits over 3-month period	**¥1,427**	1,127	**$14,561**
Other		799	
Total	**¥1,427**	¥4,122	**$14,561**

5. INVENTORIES

Inventories at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Merchandise	**¥ 335**	¥ 281	**$ 3,418**
Finished products	**11,158**	9,975	**113,857**
Work in process	**2,342**	3,032	**23,898**
Raw materials and supplies	**1,655**	2,149	**16,888**
Total	**¥15,490**	¥15,437	**$158,061**

6. SHORT-TERM BANK LOANS

Short-term bank loans at February 28, 2009 consisted of bank overdrafts. The annual interest rate applicable to the short-term bank loans was 0.65% at February 28, 2009.

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended February 28, 2009 and February 29, 2008, and recognized impairment losses of ¥242 million ($2,469 thousand) and ¥721 million as other expenses, respectively.

The loss for the year ended February 28, 2009 was for certain unutilized assets due to the planned demolition of decrepit facilities, and the loss for the year ended February 29, 2008 was for certain unutilized assets and goodwill due to a decision to withdraw from the computer printer business.

The recoverable amounts of these assets as of February 28, 2009 were measured at their net selling price determined by their carrying value, and the recoverable amounts of these assets and goodwill as of February 29, 2008 were measured at their net selling prices determined by estimated amounts on the transfer-of-asset agreement between the Company and a counterparty.

8. RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have severance payment plans for employees. Under the pension plans, employees terminating their employment are, in most circumstances, entitled to pension payments.

The liability for employees' retirement benefits at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Projected benefit obligation	**¥(7,790)**	¥(7,789)	**$(79,490)**
Fair value of plan assets	**6,340**	8,277	**64,694**
Unrecognized actuarial loss	**2,311**	382	**23,582**
Unrecognized past service cost	**(205)**	(226)	**(2,092)**
Net amount recognized	**¥ 656**	¥ 644	**$ 6,694**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥ 694**	¥ 674	**$ 7,082**
Liability for retirement benefits	**(38)**	(30)	**(388)**
Net amount recognized	**¥ 656**	¥ 644	**$ 6,694**

The components of net periodic benefit costs for the years ended February 28, 2009 and February 29, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Service cost	**¥ 392**	¥ 401	**$ 4,000**
Interest cost	**155**	157	**1,582**
Expected return on plan assets	**(207)**	(232)	**(2,112)**
Recognized net actuarial loss	**56**	(15)	**571**
Amortization of prior service cost	**(20)**	(20)	**(204)**
Net periodic benefit costs	**¥ 376**	¥ 291	**$ 3,837**

Assumptions used for the years ended February 28, 2009 and February 29, 2008 were set forth as follows:

	2009	2008
Discount rate	**2%**	2%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**14 years**	14 years
Amortization period of prior service cost	**14 years**	14 years

9. EQUITY

Since May 1, 2006, Japanese companies are subject to the corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. STOCK OPTIONS

The stock options outstanding as of February 28, 2009 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	10 directors 19 employees 12 directors of subsidiaries	157,000 shares	June 14, 2002	¥1,020	From May 24, 2004 to May 23, 2008
2003 Stock Option	9 directors 16 employees 13 directors of subsidiaries	146,000 shares	July 1, 2003	¥725	From May 23, 2005 to May 22, 2009
2004 Stock Option	8 directors 18 employees 13 directors of subsidiaries	140,000 shares	July 20, 2004	¥967	From May 28, 2006 to May 27, 2010
2005 Stock Option	8 directors 15 employees 16 directors of subsidiaries	140,000 shares	June 20, 2005	¥1,142	From May 27, 2007 to May 26, 2011

The stock option activity was as follows:

	Shares			
	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option
For the year ended February 29, 2008				
Non-vested				
February 28, 2007 – Outstanding				140,000
Granted				
Canceled				
Vested				140,000
February 29, 2008 – Outstanding				
Vested				
February 28, 2007 – Outstanding	10,000	7,000	51,000	
Vested				
Exercised	4,000	5,000	22,000	56,000
Canceled				
February 29, 2008 – Outstanding	6,000	2,000	29,000	84,000
For the year ended February 28, 2009				
Non-vested				
February 29, 2008 – Outstanding				
Granted				
Canceled				
Vested				
February 28, 2009 – Outstanding				

	Shares			
	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option
Vested				
February 29, 2008 – Outstanding	6,000	2,000	29,000	84,000
Vested				
Exercised	**2,000**		**12,000**	**8,000**
Canceled	**4,000**			
February 28, 2009 – Outstanding		**2,000**	**17,000**	**76,000**
Exercise price	¥1,020	¥ 725	¥ 967	¥ 1,142
Average stock price at exercise	¥1,716		¥ 2,105	¥ 1,952

11. INCOME TAXES

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended February 28, 2009 and February 29, 2008, respectively.

Consolidated subsidiaries outside of Japan are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2009 and February 29, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Current:			
Deferred tax assets			
Unrealized profit on inventories	**¥ 723**	¥1,426	**$ 7,377**
Accrued bonuses	**282**	450	**2,878**
Inventories	**233**	194	**2,378**
Accrued business taxes		142	
Allowance for doubtful receivables	**34**	20	**347**
Other	**198**	252	**2,020**
Total deferred tax assets	**¥1,470**	¥2,484	**$15,000**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 275**	¥ 295	**$ 2,806**
Tax-deductible inventories losses	**65**	94	**663**
Other	**93**	92	**949**
Total deferred tax liabilities	**¥ 433**	¥ 481	**$ 4,418**
Net deferred tax assets	**¥1,037**	¥2,003	**$10,582**
Non-Current:			
Deferred tax assets			
Write-down of investment securities	**¥ 240**	¥ 158	**$ 2,449**
Depreciation	**183**	140	**1,868**
Other	**432**	352	**4,408**
Less valuation allowance	**(539)**	(425)	**(5,500)**
Total deferred tax assets	**¥ 316**	¥ 225	**$ 3,225**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Deferred tax liabilities			
Unrealized gain on available-for-sale securities		¥ 257	
Prepaid pension expense	**¥276**	268	**$2,816**
Property, plant and equipment	**27**	28	**276**
Other	**53**	47	**541**
Total deferred tax liabilities	**¥356**	¥ 600	**$3,633**
Net deferred tax liabilities	**¥ (40)**	¥(375)	**$ (408)**

The difference between the normal effective statutory tax rate and the actual effective tax rate of the year ended February 28, 2009 was less than 5% and the explanatory note was omitted.

A reconciliation between the normal effective statutory tax rate for the year ended February 29, 2008 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2008
Normal effective statutory tax rate	39.8%
Effect of foreign tax rate differences	(2.4)
Impairment loss	1.8
Transfer pricing taxation	4.3
Other	(0.5)
Actual effective tax rate	43.0%

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,055 million ($20,969 thousand) and ¥2,214 million for the years ended February 28, 2009 and February 29, 2008, respectively.

13. LOSS ON CANCELLATION OF TRANSFER-OF-ASSET AGREEMENT

Due to the cancellation of the transfer-of-asset agreement with respect to withdrawal from the computer printer business, the Group recognized a loss of ¥527 million ($5,378 thousand) for disposition of the relevant assets, which were supposed to be transferred to a counterparty, and other costs.

14. LEASES

The Company and its consolidated subsidiaries lease certain machinery, computer equipment, office space and other assets.

Lease payments under financial leases were ¥47 million ($480 thousand) and ¥45 million for the years ended February 28, 2009 and February 29, 2008, respectively.

Pro forma information of leased property of which ownership was deemed not to be transferred to the lessee on an "as if capitalized" basis at February 28, 2009 and February 29, 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Acquisition cost	**¥239**	¥230	**$2,439**
Accumulated depreciation	**128**	107	**1,306**
Net leased property	**¥111**	¥123	**$1,133**

The pro forma depreciation expenses computed by the straight-line method were ¥47 million ($480 thousand) and ¥45 million for the years ended February 28, 2009 and February 29, 2008, respectively.

Obligations under financial leases at February 28, 2009 and February 29, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Due within one year	**¥ 44**	¥ 44	**$ 449**
Due after one year	**67**	79	**684**
Total	**¥111**	¥123	**$1,133**

The pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material compared with the book values of property, plant and equipment.

Obligations under non-cancelable operating leases at February 28, 2009 and February 29, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Due within one year	**¥ 68**	¥ 94	**$ 694**
Due after one year	**146**	333	**1,490**
Total	**¥214**	¥427	**$2,184**

15. DERIVATIVES

The Group enters into derivative financial instruments (“derivatives”), including foreign currency forward contracts, currency swaps and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies in the normal course of business.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty’s failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

After discussion with the relevant sections, control of derivatives is primarily the responsibility of the Finance Department. Each derivative transaction is periodically reported to the management.

Fair Value of Derivative Financial Instruments:

The fair values of the Group’s derivative financial instruments at February 28, 2009 and February 29, 2008 were as follows:

	Millions of yen					
			2009			2008
	Contracted amount	Fair value	Unrealized gain/loss	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:						
Receivables:	**¥1,767**	**¥1,860**	**¥ (93)**	¥4,299	¥4,130	¥169
Payables:	**1,729**	**1,969**	**240**	2,217	2,224	7
Total			**¥147**			¥176

	Thousands of U.S. dollars (Note 1)		
	2009		
	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	**$18,031**	**$18,980**	**$ (949)**
Payables:	**17,643**	**20,092**	**2,449**
Total			**$1,500**

16. CONTINGENT LIABILITIES

As of February 28, 2009 and February 29, 2008, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Guarantees of bank loans	**¥14**	¥41	**$143**

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 28, 2009 and February 29, 2008 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average shares	EPS	
For the year ended February 28, 2009				
Basic EPS				
Net income available to common shareholders	**¥4,338**	**50,642**	**¥85.66**	**$0.87**
Effect of dilutive securities				
Stock acquisition rights		**17**		
Diluted EPS				
Net income for computation	**¥4,338**	**50,659**	**¥85.63**	**$0.87**
For the year ended February 29, 2008				
Basic EPS				
Net income available to common shareholders	¥8,080	53,605	¥150.74	$1.44
Effect of dilutive securities				
Stock acquisition rights		94		
Diluted EPS				
Net income for computation	¥8,080	53,699	¥150.47	$1.43

18. SEGMENT INFORMATION

Information regarding industry segments, geographical segments and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended February 28, 2009 and February 29, 2008 was as follows:

(1) Industry Segments

	Millions of yen					
2009	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥11,813**	**¥12,352**	**¥28,736**	**¥4,052**		**¥56,953**
Intersegment sales						
Total sales	**11,813**	**12,352**	**28,736**	**4,052**		**56,953**
Operating expenses	**10,212**	**11,114**	**21,413**	**3,517**	**¥ 2,152**	**48,408**
Operating income	**¥ 1,601**	**¥ 1,238**	**¥ 7,323**	**¥ 535**	**¥ (2,152)**	**¥ 8,545**
Total assets	**¥ 9,042**	**¥ 8,263**	**¥29,291**	**¥5,748**	**¥11,861**	**¥64,205**
Depreciation and amortization	**498**	**1,271**	**950**	**491**	**115**	**3,325**
Loss on impairment of long-lived assets	**179**				**63**	**242**
Capital expenditures	**301**	**568**	**1,084**	**771**	**332**	**3,056**

	Millions of yen					
2008	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	¥17,149	¥12,062	¥40,304	¥4,369		¥73,884
Intersegment sales						
Total sales	17,149	12,062	40,304	4,369		73,884
Operating expenses	13,167	11,826	28,333	3,519	¥ 2,387	59,232
Operating income	¥ 3,982	¥ 236	¥11,971	¥ 850	¥ (2,387)	¥14,652
Total assets	¥13,460	¥12,773	¥36,685	¥6,050	¥17,407	¥86,375
Depreciation and amortization	776	1,204	752	374	106	3,212
Loss on impairment of long-lived assets	721					721
Capital expenditures	880	1,737	1,537	818	112	5,084

	Thousands of U.S. dollars (Note 1)					
2009	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$120,541**	**$126,041**	**$293,224**	**$41,347**		**$581,153**
Intersegment sales						
Total sales	**120,541**	**126,041**	**293,224**	**41,347**		**581,153**
Operating expenses	**104,204**	**113,408**	**218,500**	**35,888**	**$ 21,959**	**493,959**
Operating income	**$ 16,337**	**$ 12,633**	**$ 74,724**	**$ 5,459**	**$ (21,959)**	**$ 87,194**
Total assets	**$ 92,265**	**$ 84,316**	**$298,888**	**$58,653**	**$121,031**	**$655,153**
Depreciation and amortization	**5,082**	**12,969**	**9,694**	**5,010**	**1,173**	**33,928**
Loss on impairment of long-lived assets	**1,826**				**643**	**2,469**
Capital expenditures	**3,072**	**5,796**	**11,061**	**7,867**	**3,388**	**31,184**

* The segments consist of the following products:

Special Products:	Computer printers, POS printers, Visual cards, Readers/Writers, etc.
Components:	Electronic buzzers, Microphones, Speakers, Receivers, etc.
Machine Tools:	CNC automatic lathes, etc.
Precision Products:	Wristwatch parts, Optical connector parts, Automotive parts, Medical parts, etc.

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,152 million ($21,959 thousand) and ¥2,387 million for the years ended February 28, 2009 and February 29, 2008, respectively.
* Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company, and consist principally of excess funds under management (cash and marketable securities) and long-term investments (investment securities). The amounts were ¥11,861 million ($121,031 thousand) and ¥17,407 million at February 28, 2009 and February 29, 2008, respectively.
* The effect of the change in amortization method of residual value of property, plant and equipment described in Note 2.e was to decrease operating income of Special Products, Components, Machine Tools, Precision Products and Eliminations or Corporate for the year ended February 28, 2009, by ¥44 million ($449 thousand), ¥24 million ($245 thousand), ¥17 million ($173 thousand), ¥37 million ($378 thousand) and ¥4 million ($41 thousand), respectively, from such segments in the prior year.

(2) Geographical Segments

	Millions of yen					
2009	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**¥14,597**	**¥17,970**	**¥11,295**	**¥13,091**		**¥56,953**
Inter-area transfers	**24,119**	**19**	**15**	**12,914**	**¥(37,067)**	
Total	**38,716**	**17,989**	**11,310**	**26,005**	**(37,067)**	**56,953**
Operating expenses	**34,358**	**15,368**	**10,686**	**24,676**	**(36,680)**	**48,408**
Operating income	**¥ 4,358**	**¥ 2,621**	**¥ 624**	**¥ 1,329**	**¥ (387)**	**¥ 8,545**
Assets	**¥49,026**	**¥11,839**	**¥ 7,936**	**¥13,661**	**¥(18,257)**	**¥64,205**

	Millions of yen					
2008	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	¥20,132	¥26,596	¥14,144	¥13,012		¥73,884
Inter-area transfers	36,854	16	20	15,978	¥(52,868)	
Total	56,986	26,612	14,164	28,990	(52,868)	73,884
Operating expenses	46,868	21,641	12,657	28,407	(50,341)	59,232
Operating income	¥10,118	¥ 4,971	¥ 1,507	¥ 583	¥ (2,527)	¥14,652
Assets	¥63,220	¥19,914	¥ 9,843	¥21,469	¥(28,071)	¥86,375

	Thousands of U.S. dollars (Note 1)					
2009	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**$148,949**	**$183,367**	**$115,255**	**$133,582**		**$581,153**
Inter-area transfers	**246,112**	**194**	**153**	**131,775**	**$(378,234)**	
Total	**395,061**	**183,561**	**115,408**	**265,357**	**(378,234)**	**581,153**
Operating expenses	**350,591**	**156,816**	**109,041**	**251,796**	**(374,285)**	**493,959**
Operating income	**$ 44,470**	**$ 26,745**	**$ 6,367**	**$ 13,561**	**$ (3,949)**	**$ 87,194**
Assets	**$500,265**	**$120,806**	**$ 80,980**	**$139,398**	**$(186,296)**	**$655,153**

* The segments consist of the following countries:
  Europe: United Kingdom, Germany, France and Switzerland
  North America: United States of America
  Asia: China and Thailand
* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,152 million ($21,959 thousand) and ¥2,387 million for the years ended February 28, 2009 and February 29, 2008, respectively.
* Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company, and consist principally of excess funds under management (cash and marketable securities) and long-term investments (investment securities). The amounts were ¥11,861 million ($121,031 thousand) and ¥17,407 million at February 28, 2009 and February 29 2008, respectively.
* The effect of the change in amortization method of residual value of property, plant and equipment described in Note 2.e was to decrease operating income of Japan for the year ended February 28, 2009, by ¥126 million ($1,286 thousand) from that segment in the prior year.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Europe	**¥19,056**	¥27,470	**$194,449**
North America	**11,222**	13,964	**114,510**
Asia	**18,064**	20,567	**184,327**
Total	**¥48,342**	¥62,001	**$493,286**

* The segments consist of the following countries:
  Europe: United Kingdom, Germany, Switzerland, Finland, Hungary, etc.
  North America: United States of America, Mexico, etc.
  Asia: China, Republic of Korea, Taiwan, Singapore, Thailand, Australia, etc.

19. SUBSEQUENT EVENT

The following appropriation of retained earnings at February 28, 2009 was approved at the Company's shareholders' meeting held on May 28, 2009:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥15 ($0.153) per share	**¥705**	**$7,194**