MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Years ended February 28, 2010 and 2009

Business Environment

Weakness continued to plague the U.S. and European economies throughout fiscal 2010, the year ended February 28, 2010. This negativity prevailed despite benefits from economic measures taken in every country, as well as signs that the economies have bottomed out and are rebounding. Similarly, while newly emerging economies in Asia, specifically China, and in South America and other regions moved toward recovery, the economic landscape in Europe, the U.S. and Japan remained lackluster. Meanwhile, the yen appreciated further against levels in the previous fiscal year.

Net Sales

(Millions of yen)

2009	**2010**	Change (%)
¥56,953	**¥29,181**	(48.8)

Sales fell sharply in all business segments, primarily reflecting the continuation of a business environment marked by waning capital investment sentiment.

Operating (Loss) Income

(Millions of yen)

2009	**2010**	Change (%)
¥8,545	**¥(3,985)**	–

The Company recorded an operating loss due to lower sales across all business segments.

Net (Loss) Income

(Millions of yen)

2009	**2010**	Change (%)
¥4,338	**¥(8,555)**	–

Lower sales in core businesses, coupled with the posting of a loss on impairment of property, plant and equipment and the cancellation of posting of deferred tax assets, were major factors culminating in a substantial net loss for the term.

Cash Dividend per Share

(Yen)

2009	**2010**	Change (Yen)
¥45	**¥22**	¥(23)

Due to the net loss, the cash dividend applicable to the year declined ¥23 year on year, to ¥22.

Total Assets

(Millions of yen)

2009	**2010**	Change (%)
¥64,205	**¥50,681**	(21.1)

Total assets were lower, largely from inventory reductions due to production cutbacks.

Free Cash Flows

(Millions of yen)

2009	**2010**	Change (%)
¥4,838	**¥3,575**	(26.1)

The extent of the year-on-year decline was contained thanks to inventory reductions and efforts to curb capital investments.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

2009	**2010**	Change (%)
¥3,056	**¥1,586**	(48.1)

As in the previous term, capital expenditure declined, with the exception of expenditures in the Components segment.

Sales by Region

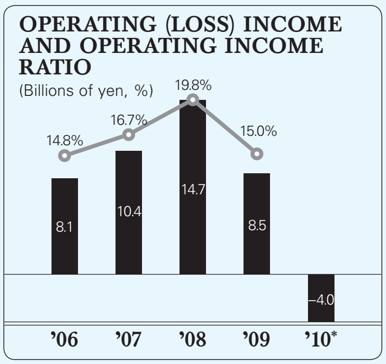
(Millions of yen)

	2009	**2010**	Change (%)
Europe	¥19,056	**¥ 7,357**	(61.4)
North America	11,222	**6,054**	(46.1)
Asia	18,064	**10,333**	(42.8)
Japan	8,611	**5,437**	(36.9)

Sales declined in all regions despite signs of economic recovery in certain regions, namely China and other parts of Asia, and South America.

INCOME ANALYSIS

▶ Operating losses reported on sharp sales declines in core businesses.



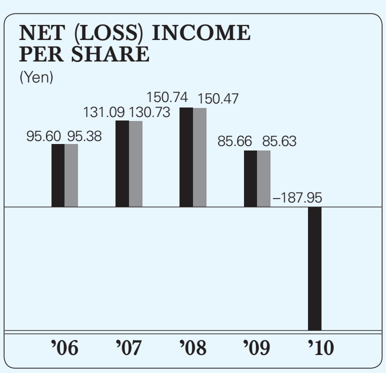
■ Operating (Loss) Income
-o- Operating Income Ratio*
* The operating income ratio was not calculated for fiscal 2010 because an operating loss was incurred.

For fiscal 2010, the fiscal year under review, Star Micronics reported consolidated sales of ¥29,181 million (US$327,876 thousand), down 48.8%, or ¥27,772 million, year on year. This outcome reflected severe sales declines in the Components, Machine Tools, Special Products and Precision Products segments largely stemming from an operating environment still marred by diminished capital investment among clients. The cost of sales fell ¥11,209 million, or 33.4%, to ¥22,326 million (US$250,854 thousand). As a result, gross profit decreased ¥16,563 million, or 70.7%, year on year to ¥6,855 million (US$77,022 thousand). The gross profit margin declined 17.6 percentage points to 23.5%. This was due primarily to the high-margin Machine Tools Segment accounting for an 11.2 percentage point lower share of total sales, at 39.3%, a major decrease in sales of receivers and speakers in the Components Segment, and a similar decrease in sales of POS printers in the Special Products Segment.

Selling, general and administrative (SG&A) expenses decreased ¥4,033 million year on year, or 27.1%, to ¥10,840 million (US$121,797 thousand). This decrease owed mainly to lower transportation and packaging costs, and a decline in direct costs, such as advertising and promotional costs, sales commissions, and other items that fell in line with decreased sales.

As a result of the above, the Company recorded an operating loss for the term of ¥3,985 million (US$44,775 thousand).

▶ Other expenses booked due to the impact of a loss on impairment of long-lived assets and other loss items.



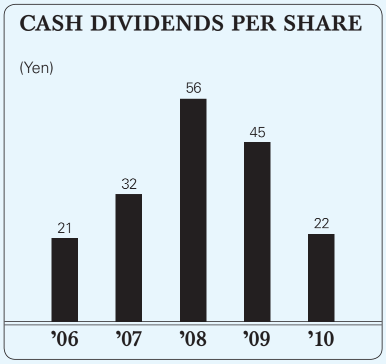
■ Basic Net (Loss) Income
■ Diluted Net Income

Other expenses–net widened to ¥2,665 million (US$29,944 thousand) compared to other expenses–net of ¥984 million in the previous fiscal year. This mostly reflected the fact that interest and dividend income decreased 58.0% year on year, or ¥313 million, to ¥227 million (US$2,551 thousand), as well as a loss on impairment of long-lived assets of ¥2,308 million (US$25,933 thousand), and special severance payments for early retired employees of ¥371 million (US$4,169 thousand). The foreign exchange loss–net deteriorated by ¥176 million, or 109.3%, to ¥337 million (US$3,786 thousand).

As a result, the Company recorded a loss before income taxes and minority interests of ¥6,650 million (US$74,719 thousand). Total income taxes were ¥1,800 million (US$20,225 thousand). The net loss after deducting minority interests was ¥8,555 million (US$96,124 thousand).

The basic net loss per share was ¥187.95 (US$2.11).

▶ **Regarding shareholder returns, our medium-term target is a total shareholder return ratio of 40%; dividend on equity (DOE) will be considered in future dividend decisions.**

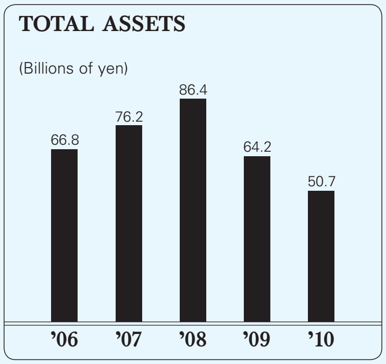


Star Micronics has decided to lower the annual dividend for the year under review by ¥23 to ¥22 (US$0.25) per share. Total dividends decreased ¥1,313 million, or 56.7%, to ¥1,001 million (US$11,247 thousand). For fiscal 2011, the Company plans to pay the same annual dividend of ¥22 per share.

Regarding future dividends, the Company, in emphasizing the return of profits to shareholders, is aiming for a total shareholder return ratio of 40%. Dividend on equity (DOE) will also be considered in setting future dividends. Planned uses for internal reserves will include investment in future growth areas to achieve sustainable growth, with the goal of raising both corporate value and shareholder profits.

FINANCIAL POSITION & LIQUIDITY

▶ **Inventory reductions due to production cutbacks resulted in lower total assets.**



Total current assets as of February 28, 2010 were ¥34,346 million (US$385,910 thousand), a decrease of ¥10,416 million, or 23.3%, compared with the previous fiscal year-end. This decrease chiefly reflected a decline in inventories of ¥6,470 million, or 41.8%, to ¥9,020 million (US$101,348 thousand), as we strove to reduce inventories through production cutbacks, as well as a drop in short-term investments of ¥425 million, or 29.8%, to ¥1,002 million (US$11,258 thousand), and a decrease in trade notes and accounts receivable of ¥870 million, or 9.0%, to ¥8,847 million (US$99,405 thousand).

Net property, plant and equipment decreased ¥3,491 million, or 23.0%, to ¥11,678 million (US$131,213 thousand). This was mainly because machinery and equipment declined ¥3,226 million, or 11.8%, to ¥24,052 million (US$270,247 thousand), owing to impairment measures targeting production equipment. Total investments and other assets increased ¥383 million, or 9.0%, year on year to ¥4,657 million (US$52,326 thousand). This was due to an increase of ¥602 million in deferred tax assets to ¥682 million (US$7,663 thousand).

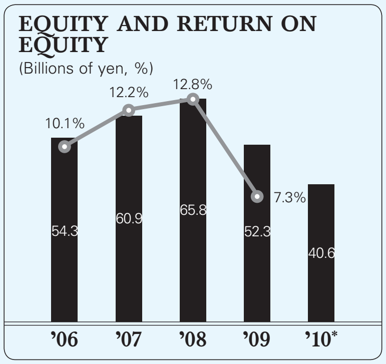
As a result of the above, total assets decreased ¥13,524 million, or 21.1%, year on year to ¥50,681 million (US$569,449 thousand).

▶ **Total liabilities declined due to decreased trade notes and accounts payable and accrued expenses as a result of lower sales.**

On the other side of the balance sheet, current liabilities decreased ¥1,932 million, or 18.0%, to ¥8,828 million (US$99,191 thousand). This fall reflected a decrease in trade notes and accounts payable of ¥433 million, or 13.3%, to ¥2,816 million (US$31,640 thousand), as well as a decrease in accrued expenses of ¥1,191 million, or 66.9%, to ¥589 million (US$6,618 thousand) as a result of lower sales.

Total long-term liabilities increased ¥133 million, or 29.0%, to ¥592 million (US$6,651 thousand).

▶ **In equity, retained earnings fell as a result of the net loss for the term.**

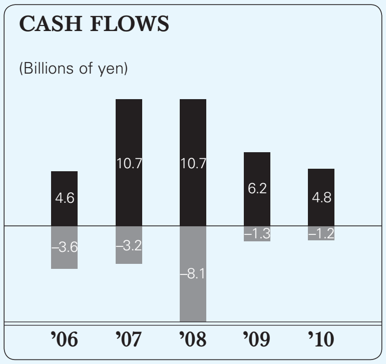


■ Equity
-o- ROE*
* ROE was not calculated for fiscal 2010 because a net loss was incurred.

Equity fell ¥11,722 million, or 22.4%, to ¥40,610 million (US$456,292 thousand). This was largely the result of a decline in retained earnings of ¥9,645 million, or 26.6% year on year, due to the net loss of ¥8,555 million (US$96,124 thousand) posted for the term. Total equity including minority interests was ¥41,261 million (US$463,607 thousand). The equity ratio fell 1.4 percentage points to 80.1%, while equity per share decreased ¥192.66 to ¥921.55 (US$10.35).

CASH FLOWS

▶ **As in the previous term, net cash provided by operating activities exceeded net cash used in investing activities.**



■ Operating Cash Flows
■ Investing Cash Flows

Net cash provided by operating activities decreased ¥1,383 million to ¥4,769 million (US$53,584 thousand). This outcome was largely attributable to a loss before income taxes and minority interests of ¥6,650 million (US$74,719 thousand), reflecting substantially worsened operating results. The Company also recorded a loss on impairment of long-lived assets of ¥2,308 million (US$25,933 thousand). This was partially offset by net cash inflow of ¥7,139 million (US$80,213 thousand), up ¥6,464 million from the previous fiscal year on changes in trade receivables, trade payables, and inventories.

Net cash used in investing activities was ¥1,194 million (US$13,416 thousand), a decrease of ¥120 million year on year. While there were no redemptions of marketable securities as in the previous fiscal year, this chiefly reflected a decrease of ¥1,417 million in cash used for purchases of property, plant and equipment to ¥1,664 million (US$18,697 thousand), due to efforts to curb capital investments, and a decline in purchases of investment securities of ¥1,220 million to ¥5 million (US$56 thousand).

▶ **Cash and cash equivalents declined slightly, reflecting lower dividends paid and other cash outflows under net cash used in financial activities.**

Net cash used in financing activities was ¥3,977 million (US$44,685 thousand), an improvement of ¥5,100 million from the previous fiscal year. This was mainly the result of a decrease of ¥2,024 million in dividends paid to shareholders to ¥1,195 million (US$13,427 thousand), along with a decline of ¥5,078 million in payments for purchase of treasury stock to ¥2,782 million (US$31,258 thousand).

As a result of the above, after foreign currency translation adjustments on cash and cash equivalents of ¥164 million (US$1,843 thousand), cash and cash equivalents as of February 28, 2010 totaled ¥14,373 million (US$161,494 thousand), representing a slight net decrease of ¥238 million year on year.

CAPITAL EXPENDITURES AND R&D EXPENSES

▶ Capital expenditures declined year on year

Capital expenditures in fiscal 2010 totaled ¥1,586 million (US$17,820 thousand). In fiscal 2011, the Company is forecasting capital expenditures of ¥1,458 million. By segment, capital investment in fiscal 2010 and planned for fiscal 2011 is as follows.

Special Products

Expenditures in the Special Products Segment fell ¥173 million to ¥128 million (US$1,438 thousand). In fiscal 2011, the Company is budgeting expenditures in this segment in the amount of ¥169 million, mainly for dies for new models.

Components

Expenditures in the Components Segment rose ¥4 million to ¥572 million (US$6,427 thousand). In fiscal 2011, the Company is budgeting expenditures in this segment in the amount of ¥202 million, mainly for dies for new models.

Machine Tools

In the Machine Tools Segment, expenditures fell ¥619 million year on year to ¥465 million (US$5,225 thousand). In fiscal 2011, we anticipate that ¥594 million will be spent on investments such as equipment for making new products, and other items.

Precision Products

In the Precision Products Segment, expenditures decreased by ¥503 million year on year to ¥268 million (US$3,011 thousand). In fiscal 2011, we expect to spend ¥308 million mainly on machinery and equipment to bolster production capacity.

Eliminations or Corporate

Capital investment in this segment for fiscal 2010 was ¥153 million (US$1,719 thousand) down ¥179 million year on year. In fiscal 2011, we plan to invest ¥185 million for upgrading of information systems, and other items.

▶ R&D expenses remained about on par with the previous year

Research and development (R&D) expenses in fiscal 2010 were ¥1,950 million (US$21,910 thousand), a decrease of ¥105 million from the previous year. This represented 6.7% of total sales. The R&D framework for the whole Group comprises the Corporate Technology Department, which works to comprehensively raise the technology level of all Group companies, and the development departments in each business in charge of the product and technology development directly linked to current products. R&D activities in each segment are as follows.

Corporate Technology Department

This department works to promote technology, mainly by carrying out actual research and technology development, conducting surveys and analysis of technologies and markets, and through quality engineering. The department is also responsible for quality control and patent operations, working to raise the technology level of the whole Company. Future plans call for strengthening partnerships with external companies and development activities aimed at creating new businesses.

Special Products

Product development in this segment is aimed at developing highly competitive products that meet customers needs. The basis for this activity is development and design of products that contribute to lowering the environmental impact while retaining high quality and reliability. A recent achievement in this vein, the TSP100ECO is the first environmentally friendly thermal eco-printer to be developed for the point-of-sale (POS) market. Going forward, we will introduce and make use of new development methods and design tools to develop highly competitive new products.

Components

New product development in this segment has focused mainly on enhancing the quality and functionality of audio device products, and on improving productivity and reducing costs. The segment has also undertaken product development to meet customers' desired specifications. We made use of our basic and analytic technologies for audio products to investigate the optimal way to use them, as well as carrying out surveys and basic research aimed at uncovering new needs.

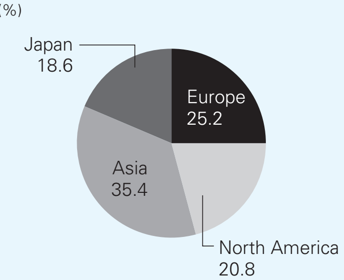
Machine Tools

Development activities in this section aimed to enter markets from the next fiscal year onwards. We worked to develop new products suited to regional market characteristics, while continuing development to improve our existing products and expand our product range at the same time. In addition, we made progress in the development of machine tools other than sliding headstock automatic lathes (Swiss-type automatic lathes), and on the environmental front changed almost all our products except for NC equipment to satisfy the RoHS directives.

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
Special Products	Star Micronics Europe Ltd.			
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG

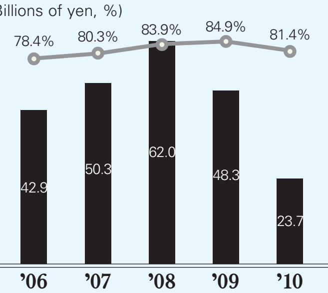
	U.S.	Thailand	Hong Kong	China
Special Products	Star Micronics America, Inc.		Star Micronics Asia Ltd.	
Machine Tools	Star CNC Machine Tool Corporation	Star Micronics (Thailand) Co., Ltd.		Shanghai Xingang Machinery Co., Ltd.

* Star Micronics America, Inc. markets components in addition to special products.
* Sweden-based sales subsidiary Star Micronics AB, currently in liquidation, is excluded from the above table.

▶ Overseas sales as a proportion of total sales fell 3.5 percentage points to 81.4%, with sales lower in all regions.

OVERSEAS SALES AND PROPORTION OF TOTAL SALES

(Billions of yen, %)



In the fiscal year under review, overseas sales as a proportion of total sales decreased 3.5 percentage points to 81.4%.

By region, in Europe, net sales decreased ¥11,699 million to ¥7,357 million (US$82,663 thousand), representing 25.2% of total sales, an 8.3 percentage point decrease from the previous fiscal year.

In North America, net sales fell ¥5,168 million to ¥6,054 million (US$68,023 thousand). The share of total sales in North America rose 1.1 percentage points to 20.8%.

Net sales in Asia decreased ¥7,731 million to ¥10,333 million (US$116,101 thousand). The share of total sales in Asia increased 3.7 percentage points to 35.4%.

In Japan, the main products are machine tools and precision products. Domestic sales decreased ¥3,174 million to ¥5,437 million (US$61,090 thousand), representing 18.6% of total sales, up 3.5 percentage points year on year.