NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2010 and 2009

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), 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.

In addition, certain reclassifications have been made in the 2009 consolidated financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Star Micronics Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and have been made at the rate of ¥89 to $1, the approximate rate of exchange at February 28, 2010. Such translation should not be construed as representation 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

The consolidated financial statements as of February 28, 2010 include the accounts of the Company and its 18 significant (21 in 2009) subsidiaries (together, the "Group").

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

Investments in the unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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. In preparing the consolidated financial statements, financial statements as of December 31 are used as to foreign consolidated subsidiaries. However, necessary adjustments are made in the consolidation process concerning significant transactions that occurred for the period from January 1 to the end of February.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

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

In May 2006, the Accounting Standards Board of Japan (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". PITF No. 18 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 of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Group applied this accounting standard effective March 1, 2009. The effect of this change was to increase operating loss by ¥17 million ($191 thousand) and loss before income taxes and minority interests by ¥192 million ($2,157 thousand). In addition, the Group adjusted the beginning balance of retained earnings at March 1, 2009 as if this accounting standard had been retrospectively applied.

c. 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.

d. Inventories

Inventories are stated at the lower of the cost (substantially determined by the average method for the Company and its consolidated subsidiaries in Japan, and by the first-in, first-out method for the consolidated subsidiaries outside Japan) or the net selling value.

Prior to February 28, 2009, inventories were substantially stated at cost determined by the average method, except for the inventories held by certain consolidated subsidiaries generally stated at the lower of cost or market. In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories". 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 was effective for fiscal years beginning on or after March 1, 2009 with early adoption permitted.

The Group applied this new accounting standard for measurement of inventories effective March 1, 2009. There was insignificant impact on the financial statements as a result of this adoption.

e. Marketable and Investment Securities

All investment securities are classified 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.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries in Japan is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to substantially all of the consolidated subsidiaries outside of Japan.

The range of useful lives is principally from 15 to 47 years for buildings and structures and from 2 to 15 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

g. Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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.

h. 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 benefits obligation 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.

i. Bonuses to Directors and Corporate Auditors

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

j. Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. 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.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective March 1, 2009. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. There was no impact on the financial statements as a result of this adoption.

All other leases are accounted for as operating leases.

k. Research and Development Costs

Research and development costs are charged to income as incurred.

l. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. 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 operations to the extent that they are not hedged by forward exchange contracts.

n. 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.

o. 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 operations.

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 the consolidated statements of operations.

p. Per Share Information

Basic net income (loss) 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. Diluted net income per share was not disclosed due to the loss position for the year ended February 28, 2010.

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

q. New Accounting Pronouncements

Business Combinations

On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows:

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires companies to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
(2) The current accounting standard requires research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.
(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21 “Guidance on Accounting Standard for Asset Retirement Obligations”. Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made.

Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at February 28, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Current:			
Corporate and other bonds		¥196	
Total		¥196	
Non-current:			
Equity securities	**¥1,573**	¥1,452	**$17,674**
Corporate and other bonds	**1,124**	1,037	**12,629**
Trust fund investment and other	**35**	29	**394**
Total	**¥2,732**	¥2,518	**$30,697**

Information regarding the category of securities classified as available-for-sale at February 28, 2010 and 2009 was as follows:

	Millions of yen			
2010	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,396**	**¥242**	**¥197**	**¥1,441**
Corporate and other bonds	**1,123**	**12**	**11**	**1,124**
Trust fund investments and other	**29**	**6**		**35**

	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

	Thousand of U.S. dollars (Note 1)			
2010	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$15,685**	**$2,719**	**$2,213**	**$16,191**
Corporate and other bonds	**12,618**	**135**	**124**	**12,629**
Trust fund investments and other	**327**	**67**		**394**

Available-for–sale securities whose fair value is not readily determinable as of February 28, 2010 and 2009 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Available-for-sale:			
Equity securities	**¥132**	¥134	**$1,483**
Total	**¥132**	¥134	**$1,483**

Proceeds from sales of available-for-sale securities for the years ended February 28, 2010 and 2009 were ¥202 million ($2,270 thousand) and ¥997 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2010 were both ¥0 million ($0 thousand), and for the year ended February 28, 2009 were ¥9 million and ¥3 million, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 28, 2010 and 2009, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Due within one year		¥196	
Due after one year through five years		800	
Total		¥996	

4. SHORT-TERM INVESTMENTS

Short-term investments at February 28, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Deposits over 3-month period	**¥1,002**	¥1,427	**$11,258**
Total	**¥1,002**	¥1,427	**$11,258**

5. INVENTORIES

Inventories at February 28, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Merchandise	**¥ 279**	¥ 335	**$ 3,135**
Finished products	**5,605**	11,158	**62,977**
Work in process	**2,057**	2,342	**23,112**
Raw materials and supplies	**1,079**	1,655	**12,124**
Total	**¥9,020**	¥15,490	**$101,348**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended February 28, 2010 and 2009, and recognized impairment losses of ¥2,308 million ($25,933 thousand) and ¥242 million as other expenses, respectively.

The loss for the year ended February 28, 2010 was for production facilities used by the Components Department due to the downturn in profitability, and the loss for the year ended February 28, 2009 was for certain unutilized assets due to the planned demolition of decrepit facilities.

The recoverable amounts of these assets as of February 28, 2010 were measured at value in use and as a result, they were assessed as zero value. The recoverable amounts of these assets as of February 28, 2009 were measured at their net selling price determined by their carrying value.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 28, 2010 and 2009 consisted of bank overdrafts. The annual interest rates applicable for the years ended February 28, 2010 and 2009 were 0.42% and 0.65%, respectively.

Long-term debt at February 28, 2010 consisted of the following:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Lease obligations	**¥53**	**$596**
Less: current portion	**11**	**124**
Long-term debt, less current portion	**¥42**	**$472**

Annual maturities of long-term debt at February 28, 2010 were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2011	**¥11**	**$124**
2012	**11**	**124**
2013	**11**	**124**
2014	**11**	**124**
2015	**9**	**100**
Total	**¥53**	**$596**

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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Projected benefit obligation	**¥(7,503)**	¥(7,790)	**$(84,303)**
Fair value of plan assets	**6,772**	6,340	**76,090**
Unrecognized actuarial loss	**1,388**	2,311	**15,595**
Unrecognized past service cost	**(185)**	(205)	**(2,079)**
Net amount recognized	**¥ 472**	¥ 656	**$ 5,303**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥ 515**	¥ 694	**$ 5,786**
Liability for retirement benefits	**(43)**	(38)	**(483)**
Net amount recognized	**¥ 472**	¥ 656	**$ 5,303**

The components of net periodic benefit costs for the years ended February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Service cost	**¥ 355**	¥ 392	**$ 3,989**
Interest cost	**155**	155	**1,742**
Expected return on plan assets	**(159)**	(207)	**(1,787)**
Recognized net actuarial loss	**198**	56	**2,225**
Amortization of prior service cost	**(20)**	(20)	**(225)**
Net periodic benefit costs	**¥ 529**	¥ 376	**$ 5,944**

Assumptions used for the years ended February 28, 2010 and 2009 were set forth as follows:

	2010	2009
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 have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below.

(a) Dividends

Under the Companies Act, 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 Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations 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 Companies Act 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 Companies Act 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 Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Companies Act 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, 2010 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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		
	2003 Stock Option	2004 Stock Option	2005 Stock Option
For the year ended February 28, 2009			
Non-vested			
February 29, 2008 – Outstanding			
Granted			
Canceled			
Vested			
February 28, 2009 – Outstanding			
Vested			
February 29, 2008 – Outstanding	2,000	29,000	84,000
Vested			
Exercised		12,000	8,000
Canceled			
February 28, 2009 – Outstanding	2,000	17,000	76,000
For the year ended February 28, 2010			
Non-vested			
February 28, 2009 – Outstanding			
Granted			
Canceled			
Vested			
February 28, 2010 – Outstanding			

	Shares		
	2003 Stock Option	2004 Stock Option	2005 Stock Option
Vested			
February 28, 2009 – Outstanding	2,000	17,000	76,000
Vested			
Exercised			
Canceled	**2,000**		
February 28, 2010 – Outstanding		**17,000**	**76,000**
Exercise price	¥725	¥967	¥1,142
Average stock price at exercise			

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, 2010 and 2009, 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, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Current:			
Deferred tax assets			
Inventories	**¥ 217**	¥ 233	**$ 2,438**
Accrued bonuses	**206**	282	**2,315**
Allowance for doubtful receivables	**114**	34	**1,281**
Unrealized profit on inventories	**17**	723	**191**
Other	**93**	198	**1,045**
Less valuation allowance	**(422)**		**(4,742)**
Total deferred tax assets	**¥ 225**	¥1,470	**$ 2,528**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 1,238**	¥ 275	**$ 13,910**
Tax-deductible inventories losses	**41**	65	**461**
Other	**28**	93	**314**
Total deferred tax liabilities	**¥ 1,307**	¥ 433	**$ 14,685**
Net deferred tax (liabilities) assets	**¥(1,082)**	¥1,037	**$(12,157)**
Non-Current:			
Deferred tax assets			
Tax loss carry forwards	**¥ 2,250**		**$ 25,281**
Impairment loss	**635**		**7,135**
Write-down of investment securities	**240**	¥ 240	**2,697**
Depreciation	**217**	183	**2,438**
Other	**273**	432	**3,067**
Less valuation allowance	**(2,926)**	(539)	**(32,876)**
Total deferred tax assets	**¥ 689**	¥ 316	**$ 7,742**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Deferred tax liabilities			
Prepaid pension expense	**¥ 205**	¥ 276	**$ 2,303**
Property, plant and equipment	**26**	27	**292**
Other	**33**	53	**371**
Total deferred tax liabilities	**¥ 264**	¥ 356	**$ 2,966**
Net deferred tax assets (liabilities)	**¥ 425**	¥ (40)	**$ 4,776**

Effective for the year ended February 28, 2010, the Company changed its dividend policy from foreign consolidated subsidiaries with the revised Corporation Tax Act issued on March 31, 2009.

The effect of this change was to increase both deferred tax liabilities on undistributed earnings of associate companies and income taxes – deferred by ¥961 thousand ($10,798 thousand) for the year ended February 28, 2010.

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2010 and the actual effective tax rate reflected in the accompanying consolidated statements of operations was as follows:

	2010
Normal effective statutory tax rate	**39.8%**
Valuation allowance	**(42.7)**
Undistributed earnings of associated companies	**(13.2)**
Unrealized profit on inventories	**(7.0)**
Effect of foreign tax rate differences	**(3.8)**
Other	**(0.2)**
Actual effective tax rate	**(27.1)%**

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.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,950 million ($21,910 thousand) and ¥2,055 million for the years ended February 28, 2010 and 2009, respectively.

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

For the year ended February 28, 2009, 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 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 ¥42 million ($472 thousand) and ¥47 million for the years ended February 28, 2010 and 2009, respectively.

As discussed in Note 2.j, the Company accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, on an "as if capitalized" basis for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Acquisition cost	**¥172**	¥239	**$1,933**
Accumulated depreciation	**101**	128	**1,135**
Net leased property	**¥ 71**	¥111	**$ 798**

The pro forma depreciation expense computed by the straight-line method was ¥42 million ($472 thousand) and ¥47 million for the years ended February 28, 2010 and 2009, respectively.

Obligations under financial leases at February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Due within one year	**¥30**	¥ 44	**$337**
Due after one year	**41**	67	**461**
Total	**¥71**	¥111	**$798**

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, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Due within one year	**¥ 80**	¥ 68	**$ 899**
Due after one year	**285**	146	**3,202**
Total	**¥365**	¥214	**$4,101**

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 management.

Fair Value of Derivative Financial Instruments:

The fair values of the Group's derivative financial instruments at February 28, 2010 and 2009 were as follows:

	Millions of yen					
	2010			2009		
	Contracted amount	Fair value	Unrealized gain/loss	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:						
Receivables:	**¥1,750**	**¥1,712**	**¥ 38**	¥1,767	¥1,860	¥ (93)
Payables:	**951**	**923**	**(28)**	1,729	1,969	240
Total			**¥ 10**			¥147

	Thousands of U.S. dollars (Note 1)		
	2010		
	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	**$19,663**	**$19,236**	**$ 427**
Payables:	**10,686**	**10,371**	**(315)**
Total			**$ 112**

16. CONTINGENT LIABILITIES

As of February 28, 2010 and 2009, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Guarantees of bank loans		¥14	

17. NET (LOSS) INCOME PER SHARE

Reconciliation of the differences between basic and diluted net (loss) income per share (EPS) for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net (loss) income	Weighted average shares	EPS	
For the year ended February 28, 2010				
Basic EPS				
Net loss attributable to common shareholders	**¥(8,555)**	**45,518**	**¥(187.95)**	**$(2.11)**
Effect of Dilutive Securities				
Stock Acquisition Rights				
Diluted EPS				
Net loss for computation	**¥(8,555)**	**45,518**		
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

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, 2010 and 2009 was as follows:

(1) Industry Segments

	Millions of yen					
2010	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥6,740**	**¥ 7,646**	**¥11,464**	**¥3,331**		**¥29,181**
Intersegment sales						
Total sales	**6,740**	**7,646**	**11,464**	**3,331**		**29,181**
Operating expenses	**6,461**	**9,172**	**12,404**	**3,416**	**¥ 1,713**	**33,166**
Operating (loss) income	**¥ 279**	**¥(1,526)**	**¥ (940)**	**¥ (85)**	**¥(1,713)**	**¥ (3,985)**
Total assets	**¥7,694**	**¥ 6,558**	**¥25,225**	**¥5,856**	**¥ 5,348**	**¥50,681**
Depreciation and amortization	**248**	**976**	**982**	**507**	**171**	**2,884**
Loss on impairment of long-lived assets		**2,277**		**31**		**2,308**
Capital expenditures	**128**	**572**	**465**	**268**	**153**	**1,586**

	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

	Thousands of U.S. dollars (Note 1)					
2010	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$75,730**	**$ 85,910**	**$128,809**	**$37,427**		**$327,876**
Intersegment sales						
Total sales	**75,730**	**85,910**	**128,809**	**37,427**		**327,876**
Operating expenses	**72,595**	**103,056**	**139,371**	**38,382**	**$ 19,247**	**372,651**
Operating (loss) income	**$ 3,135**	**$(17,146)**	**$ (10,562)**	**$ (955)**	**$(19,247)**	**$ (44,775)**
Total assets	**$86,449**	**$ 73,685**	**$283,427**	**$65,798**	**$ 60,090**	**$569,449**
Depreciation and amortization	**2,786**	**10,966**	**11,034**	**5,697**	**1,921**	**32,404**
Loss on impairment of long-lived assets		**25,584**		**349**		**25,933**
Capital expenditures	**1,438**	**6,427**	**5,225**	**3,011**	**1,719**	**17,820**

* The segments sell the following products:
Special Products: Computer printers (only for 2009), 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 ¥1,713 million ($19,247 thousand) and ¥2,152 million for the years ended February 28, 2010 and 2009, 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 cash equivalents) and long-term investments (investment securities). The amounts were ¥5,348 million ($60,090 thousand) and ¥11,861 million at February 28, 2010 and 2009, respectively.

(2) Geographical Segments

	Millions of yen					
2010	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**¥ 9,553**	**¥ 6,853**	**¥6,261**	**¥ 6,514**		**¥29,181**
Inter-area transfers	**10,387**	**16**	**27**	**5,848**	**¥(16,278)**	
Total	**19,940**	**6,869**	**6,288**	**12,362**	**(16,278)**	**29,181**
Operating expenses	**23,429**	**6,570**	**6,432**	**12,057**	**(15,322)**	**33,166**
Operating (loss) income	**¥ (3,489)**	**¥ 299**	**¥ (144)**	**¥ 305**	**¥ (956)**	**¥ (3,985)**
Assets	**¥38,309**	**¥11,517**	**¥7,220**	**¥11,292**	**¥(17,657)**	**¥50,681**

	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

	Thousands of U.S. dollars (Note 1)					
2010	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**$107,337**	**$ 77,000**	**$70,348**	**$ 73,191**		**$327,876**
Inter-area transfers	**116,708**	**180**	**303**	**65,708**	**$(182,899)**	
Total	**224,045**	**77,180**	**70,651**	**138,899**	**(182,899)**	**327,876**
Operating expenses	**263,247**	**73,820**	**72,269**	**135,472**	**(172,157)**	**372,651**
Operating (loss) income	**$ (39,202)**	**$ 3,360**	**$ (1,618)**	**$ 3,427**	**$ (10,742)**	**$ (44,775)**
Assets	**$430,438**	**$129,404**	**$81,124**	**$126,876**	**$(198,393)**	**$569,449**

* The segments include 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 ¥1,713 million ($19,247 thousand) and ¥2,152 million for the years ended February 28, 2010 and 2009, 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 cash equivalents) and long-term investments (investment securities). The amounts were ¥5,348 million ($60,090 thousand) and ¥11,861 million at February 28, 2010 and 2009, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Europe	**¥ 7,357**	¥19,056	**$ 82,663**
North America	**6,054**	11,222	**68,023**
Asia	**10,333**	18,064	**116,101**
Total	**¥23,744**	¥48,342	**$266,787**

* The segments include 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, 2010 was to be approved at the Company's shareholders' meeting held on May 27, 2010:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥11 ($0.124) per share	**¥485**	**$5,449**