Eyes on Today and Tomorrow

Eyes on Today and Tomorrow

ANNUAL REPORT 2011

For the year ended February 28, 2011

STAR MICRONICS CO., LTD.

Achieving Sustainable Corporate Value

Achieving Sustainable Corporate Value

We aim to raise profitability and maintain our soundness while steadily making sustained returns to shareholders by optimizing the allocation of business resources and by restructuring our businesses.

PROFILE

Established in 1950, Star Micronics Co., Ltd. possesses the strength of developing and manufacturing high-added-value products based on its core technologies of small-scale precision processing and assembly, aiming for more than half a century to realize businesses that "generate the greatest impact from the least materials."

Currently, Star Micronics is engaged in four businesses: special products, mainly point-of-sale (POS) printers; components, including micro audio components; machine tools, mainly CNC automatic lathes; and precision products, mainly wristwatch parts and hard disk drive (HDD) parts. Moreover, overseas sales comprise about 78% of all sales, and overseas production comprises over 70% of all production. Star Micronics is developing its businesses globally in terms of both sales and production.

Going forward, Star Micronics will leverage the strengths it has built up to develop its businesses and maximize its corporate value.

CONTENTS

MEDIUM-TERM STRATEGY

Raise Profitability

Raise Profitability

- Capture high shares in global niche markets
- Concentrate business resources on highly profitable products and markets
- Create high-value-added products

Preserving Growth

Preserving Growth

- Strengthen our sales organization in emerging markets
- Build an optimal production system by utilizing overseas production bases
- Implement business alliances and M&As to strengthen our core competencies

Maintain Soundness

Maintain Soundness

- Equity ratio: 75% or more
- Ratio of net cash (to total assets): 25% or more
- Enhancement of shareholder returns

  Dividend payout ratio: 40% or more

  Dividend on equity : 4.0% or more

FORWARD-LOOKING STATEMENTS

Statements in this annual report with respect to Star Micronics' plans, strategies and beliefs as well as all other statements that are not historical facts are forward-looking statements involving risks and uncertainties. These forward-looking statements rely on a number of assumptions concerning future events. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, general worldwide economic conditions, competitive pressure on sales and pricing, and movements of currency exchange rates.

FINANCIAL HIGHLIGHTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 28, 2009, 2010 and 2011

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2009	2010	**2011**	2011/2010	**2011**
For the year:					
Net sales	¥56,953	¥29,181	**¥35,718**	22.4 %	**$435,585**
Operating income (loss)	8,545	(3,985)	**1,429**		**17,427**
Net income (loss)	4,338	(8,555)	**161**		**1,963**
Return on sales	7.6%				
Capital expenditures	3,056	1,586	**974**	(38.6)	**11,878**
Depreciation and amortization	3,325	2,884	**1,762**	(38.9)	**21,488**
At year-end:					
Total assets	64,205	50,681	**49,250**	(2.8)	**600,610**
Total equity	52,986	41,261	**37,096**	(10.1)	**452,390**
Equity ratio	81.5%	80.1%	**73.9%**		

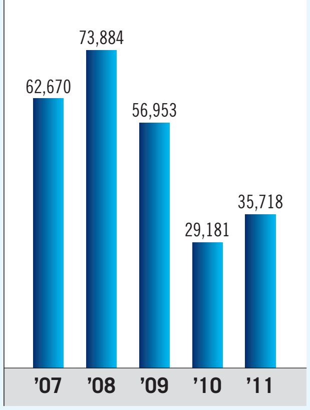
	Yen			Change (%)	U.S. dollars
Per share:					
Basic net income (loss)	¥ 85.66	¥ (187.95)	**¥ 3.71**		**$0.05**
Diluted net income	85.63				
Cash dividends applicable to the year	45.00	22.00	**22.00**	0.0 %	**0.27**
Stock information:					
Common shares issued	51,033,234	51,033,234	**51,033,234***		
Number of shareholders	12,480	11,915	**10,929**		

Note: The rate of ¥82 to US$1, prevailing on February 28, 2011, has been used for translation into U.S. dollar amounts.

* On April 20, 2011, the Company carried out the disposal of 3,000,000 shares of treasury stock, bringing the total number of outstanding shares as of that date to 48,033,234 shares.

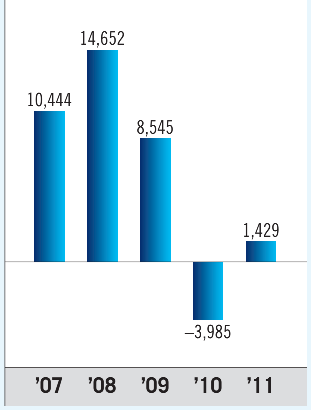
NET SALES

(Millions of yen)



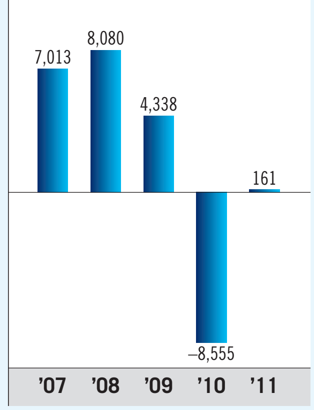
OPERATING INCOME (LOSS)

(Millions of yen)



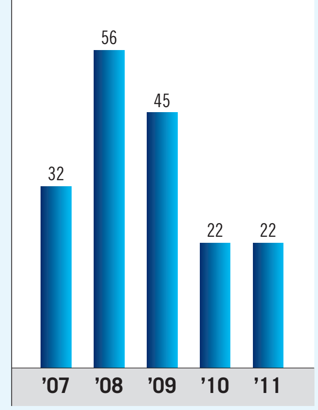
NET INCOME (LOSS)

(Millions of yen)



CASH DIVIDENDS APPLICABLE TO THE YEAR

(Yen)



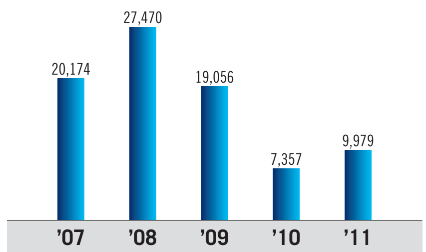
AT A GLANCE BY REGION

NET SALES | HIGHLIGHTS

EUROPE

SALES BY SEGMENT

27.9%



SALES BY GEOGRAPHICAL REGION

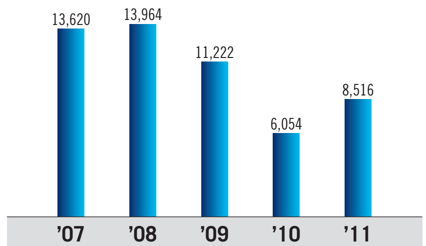
35.6% UP

- Machine Tools orders in the European market, mainly in Germany, improved among customers in the automobile sector in particular.

AMERICA

SALES BY SEGMENT

23.8%



SALES BY GEOGRAPHICAL REGION

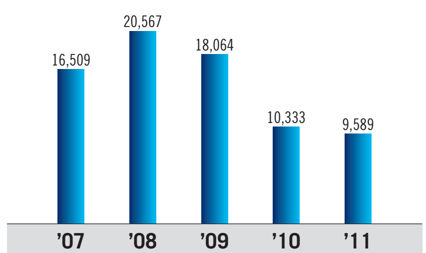
40.7% UP

- In POS printers, along with firm growth in the South American market, demand in the North American market also continued to rebound, resulting in higher sales of thermal printers mainly to the POS market.
- The Machine Tools business saw steady growth in the United States thanks to firm orders for medical-related machine tools.

ASIA

SALES BY SEGMENT

26.9%



SALES BY GEOGRAPHICAL REGION

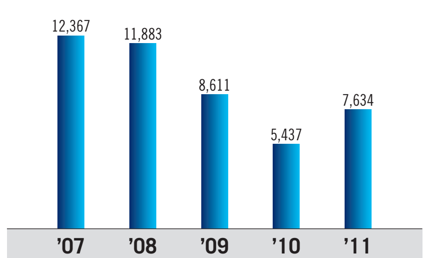
–7.2% DOWN

- The Machine Tools business saw increased sales in China and Southeast Asia, atop brisk orders from customers in the automobile, motorcycle and other sectors.
- Sales of components in the mobile phone market plummeted.

JAPAN

SALES BY SEGMENT

21.4%



SALES BY GEOGRAPHICAL REGION

40.4% UP

- Aggressive capital investment in overseas production sites continued, leading to increased sales in the Machine Tools business.
- In the Precision Products business, sales of wristwatch components grew as the market share for high-quality products from Japanese manufacturers expanded.

Raising Corporate Value on Steady Success

—Eyes on Today and Tomorrow

Orders improved in all the major markets in which the Star Micronics Group operates, particularly the Machine Tools segment, as the global economy saw a gradual recovery. As a result, the Star Micronics Group made an overall profit on the back of revitalized sales figures, a major turnaround after the tough financial performance of the previous term. Going forward, we intend to continue to steadily implement those strategies that have served the Group well so far in order to stimulate further recovery in performance. Furthermore, it is extremely important that we select strategies that realistically play to our strengths after properly evaluating our management resources.

HAJIME SATO
President and CEO

REVIEW OF BUSINESS PERFORMANCE

In fiscal 2011, the year ended February 28, 2011, demand increased in the major markets in which the Star Micronics Group operates. The Machine Tools Segment enjoyed strong demand from Asia, as well as an improvement in orders received in Europe, where recovery had lagged. The Special Products and Precision Products segments also saw increased demand due to improving market conditions.

As a result of these factors, Star Micronics reported consolidated net sales of ¥35,718 million, recovering 22.4% year-on-year, in fiscal 2011. As regards profits, we reported operating income of ¥1,429 million, representing a sharp improvement from the previous year. Net income for the year was ¥161 million and came despite the posting of special severance payments for early retired employees.

To compensate our shareholders, Star Micronics decided to pay a full-year dividend of ¥22 per share.

UNDERSTANDING MARKET CONDITIONS

In fiscal 2011, the most notable point concerning market conditions for the Star Micronics Group was a rebound in machine tool demand in the European market. The euro's depreciation created favorable conditions in automobiles and precision product-related export industries in Europe, particularly in Germany. Furthermore, the freeze on capital investment at most companies, which has lasted over a year and was triggered by economic weakness over the last several years, is causing local shortages in machine tools. In these conditions, we are seeing a recovery in orders from Germany, Switzerland, the U.K. and other European markets.

Turning to the U.S. market, there were no major shortfalls thanks to firm orders for medical-related machine tools. Similarly, the overall impression in POS printers, where trends in consumer spending have an especially clear impact, is that conditions have begun to look up as consumer interest in making purchases has gradually improved. In the South American market, too, sales of POS printers were brisk especially, in Brazil. In China and other Asian markets, which largely escaped any direct impact of the financial crisis, Star Micronics' businesses remained healthy overall. In summary, in fiscal 2011 in addition to mounting recovery in Europe and the U.S., our operations ultimately benefited from growth in Asia and South America.

LOOKING BACK ON TWO YEARS AS PRESIDENT

I became President and CEO of Star Micronics in May of 2009. Fallout from the financial crisis that had struck earlier in the fall of 2008 sparked global economic weakness that had caused our operating environment to rapidly deteriorate. The end result for fiscal 2010 was the toughest financial performance we have reported in Star Micronics' history. In this unforgiving climate, I decided to advance two key strategies.

The first strategy was not to force any sales. While lowering product sales prices more than necessary in an unwelcoming market may provide a temporary boost, my position was that this would have little long-term merit since it would adversely impact market prices later on. To this end, our chosen strategy, given the pullback in capital investment among manufacturers, was not to force sales by adjusting sales prices for our products.

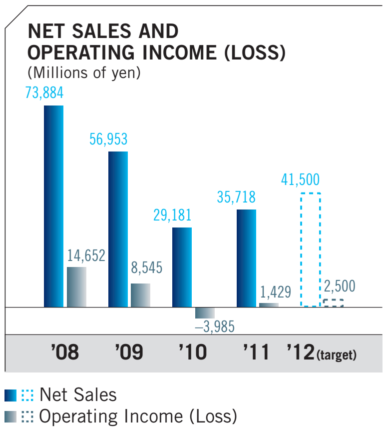
The other strategy was extensive inventory reduction. Our sales companies and plants in Japan and across the globe ultimately reduced about ¥6.0 billion of the ¥15.0 billion in inventory we possessed on a consolidated basis over the course of one year. We also took thorough steps to keep our corporate structure strong, which included workforce downsizing at our production plant in Dalian, China. So while we did not post a profit in fiscal 2010, these efforts allowed Star Micronics to continue to pay dividends without marring our balance sheet.

These strategies from the last business term paid off in our being able to report dramatically improved business results and profitability for the fiscal year under review.

FISCAL 2012 OUTLOOK AND FUTURE INITIATIVES

Gradual signs of economic recovery are expected to emerge worldwide in fiscal 2012, the year ending February 29, 2012. Two major points in the global economy going forward will be the upcoming 2012 presidential elections in the U.S., France, Russia and South Korea, as well as a change in national leadership in China. Ahead of elections, the current administrations in each country are likely to push forward with economic policies. Consequently, we will probably see the economies of first the U.S., and then Europe, make a solid and steady rebound from this fall.

The Great East Japan Earthquake that struck in March 2011 caused fragmentation in component supply chains, triggering freezes in corporate activities, particularly among manufacturers. Despite lingering problems, namely an accident at a nuclear power plant linked to the earthquake and subsequent nationwide power shortages, supply chain restoration has moved forward and corporate activities have finally begun returning to normal.



The Star Micronics Group has no plants or offices in the area most affected by the devastating earthquake, and did not suffer any direct injury to personnel or damage to structures, production facilities and other equipment. Nevertheless, in the Components business, sales of products for the automobile market, where growth was anticipated, faltered due to production cutbacks by automakers in the wake of the disaster. In the Precision Products Segment, sales of wristwatch components were largely unaffected despite damage to production sites among some wristwatch makers due to the earthquake. This reflected a faster-than-expected recovery in production among those makers impacted, which subsequently minimized any adverse effects on sales.

For the fiscal year ending February 29, 2012, due to continued improvement in the order environment in the Machine Tools Segment, Star Micronics is projecting net sales of ¥41,500 million, up 16.2% year on year. Tracking sales growth, operating income is projected to rise 74.9% year on year, to ¥2,500 million, with net income soaring 583.2% to ¥1,100 million.

MEDIUM-TERM OUTLOOK

My approach over the next two to three years calls for channeling our efforts into the ASEAN (Association of Southeast Asian Nations) region. The ASEAN member countries of Indonesia, Thailand, Malaysia, the Philippines and Vietnam have a collective population of around 500 million people, roughly comparable with that of EU member states. In terms of current economic scale, these two markets are, of course, vastly different, but the ASEAN market harbors massive growth potential. While double-digit economic growth is unlikely in ASEAN over the next five to ten years, annual growth is widely expected to be 5% or more. Furthermore, the region offers less onerous time-zone differences compared to Europe and the United States, offering an environment that should facilitate business.

Our most promising businesses for this region are POS printers and machine tools. Continued economic development will spur more retail stores, which should fuel growth in demand for POS printers. Moreover, the Star Micronics Group currently has only a modest market share in the region, suggesting ample room for growth going forward. Additionally, as the region becomes a production base for automobiles and a host of other manufacturing sectors, this can be expected to drive needs around machine tools, for which the desire to undertake capital investment is high.

OUTLOOK BY BUSINESS SEGMENT

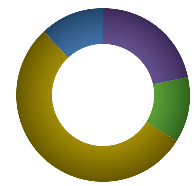
Special Products: In POS printers, product functionality and quality are maturing, making it difficult to achieve distinction based on printing speed and operability alone. We thus will need to look beyond functionality and quality to also focus on after-sales services. As one specific measure, we have established a sales company in Bangkok, Thailand, as a base in Southeast Asia, where our presence to date has been somewhat subdued. We will now proceed to develop a service framework covering the entire region.

Additionally, we will continue to develop high-added-value products with distinctive functionality. These will include mobile printers for use with on-demand settlement systems, which have started to be sold in the United States, as well as eco-printers that consume less energy and eliminate wasted paper.

Components: With the emphasis on profitability, we are shifting the pivotal focus of this segment from mobile phones to the automobile sector, among other actions. With that said, given ever more severe market conditions resulting from a number of recent developments, such as wage inflation in the Chinese industrial sector and shortages of rare earth materials, replacing it with the automobile sector alone is not feasible. Our intention going forward is to review our operations in this segment and determine the future direction of the business as quickly as possible.

SALES BY SEGMENT

(%)



Special Products	21.8%
Components	12.3%
Machine Tools	54.0%
Precision Products	11.9%

Machine Tools: Our task looking ahead is to expand our sales share in the CNC automatic lathe market by strengthening our lineup of fixed-headstock automatic lathes and turning centers released in fiscal 2011 in a bid to cultivate new markets. In March 2011, we launched a new strategic machine under the brand name GEILI, featuring selected functions and superior cost performance, with the goal of expanding our CNC automatic lathe share in the Chinese market. We intend to move forward quickly with wider development of the Chinese market backed by this entry-level CNC automatic lathe in China.

In order to bolster production capacity, Star Micronics plans to establish a new machine tools production subsidiary and production plant in Nakhon Ratchasima Province, Thailand in August 2011. This new plant is scheduled to start operation in October 2012. In the fiscal year ending February 28, 2018, the establishment of this new production base, what will be one of three bases in a production network spanning Japan, China and Thailand, is set to give Star Micronics a total monthly production output of 500 units and an annual output of 6,000 units.

TOPICS

TSP100ECO: THE INDUSTRY'S FIRST ECO-FRIENDLY PRINTER

This product started with a single goal: Reduce standby power consumption to zero.

Responding to rising awareness of environmental issues worldwide, we beat the competition to market with the industry's first environmentally-friendly printer, the *TSP100ECO.* This new addition to our POS printer lineup features not only low power consumption and paper-saving functionality, but slashes customers' running costs as well. Corporate customers around the world, and particularly in Europe and the United States, where environmental issues are especially important, have expressed strong interest, and we expect the *TSP100ECO* to steadily capture demand for "green" printers.

ENTERING NEW MARKETS TO EXPAND THE BUSINESS DOMAIN

We have launched two important new products: the *SF-25* turning center and the *SG-42* fixed-headstock CNC automatic lathe. These products will complement our lineup of Swiss-type automatic lathes and serve customer needs we haven't been able to meet in the past.

The *SF-25* turning center leverages our superiority in small precision parts machining. The tool is ideal for machining complex parts for medical equipment, aircraft, automobiles and other high-precision equipment. Compared with competitor products designed for larger parts, the *SF-25* fills the niche perfectly for high precision machining of small precision parts.

The *SG-42* joins high productivity with high functionality and high precision. The lathe will meet demand for machining larger parts for automobiles, construction materials and household electronic appliances.

We will continue to bolster our product lineup in the future to expand our market share as a leading CNC automatic lathe manufacturer.

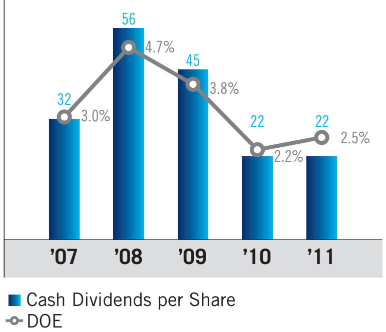
Precision Products: The important issue in the Precision Products Segment is to expand our sales overseas. In overseas markets, our subsidiaries in Ayutthaya (Thailand) and Shanghai (China) are performing strongly. As we have been doing, we will continue taking steps to enhance quality and productivity, and will also need to reinforce our local sales capabilities going forward. Over the medium to long term, Star Micronics will put greater emphasis on its three bases in Ayutthaya, Shanghai, and Dalian.

TO OUR SHAREHOLDERS AND OTHER INVESTORS

The fundamental management policy of Star Micronics is not to merely pursue expansion of business size, but to develop businesses in growth industries and in global niche markets. Furthermore, it is extremely important that we steadily implement strategies that realistically play to our strengths after properly evaluating our management resources.

Regarding the distribution of profits, we emphasize the return of profits to shareholders, and are unwavering in our belief that being a listed stock entails compensating them with dividend payments. Therefore, we are determined to achieve our target of a consolidated dividend payout ratio of at least 40% while taking into account our consolidated dividend on equity (DOE). To implement a more flexible capital policy that is responsive both to efforts to boost capital efficiency and to a changing operating environment, we acquired 1 million shares of treasury stock in September 2010. This acquisition raised our treasury stock level to roughly 8 million shares, 3 million of which were cancelled in April 2011. While ideally the remaining 5 million would be used for M&A activities, failing that, we are considering their cancellation over the next three years.

CASH DIVIDENDS PER SHARE AND DOE
(Yen, %)

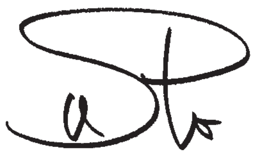


Where M&A is concerned, we are still hoping to identify potential partners that fit our three fundamental criteria of possessing sound management, an outstanding business model and high growth.

Based on challenging scenarios that include an uncertain operating environment due to the impact of the Great East Japan Earthquake and Tsunami, unfavorable exchange rates and global economic trends, we plan to carefully monitor events in the fiscal year ending February 2012. When it comes to the management of Star Micronics, my philosophy is to never look the other way when it comes to risk. So no matter how small the risk, rest assured that we will never ignore it.

With our sights set on further recovery in business performance, we are staunchly committed to achieving the best outcomes possible. I ask for the continued support and understanding of our shareholders and other investors as we work to meet your expectations.

July 2011



HAJIME SATO
President and CEO

BUSINESS REVIEW

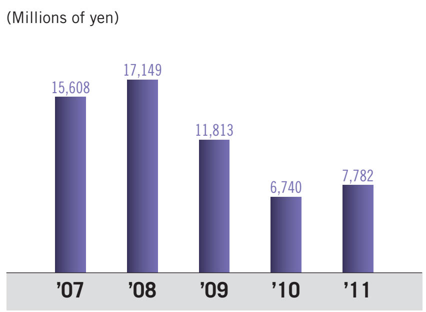
NET SALES

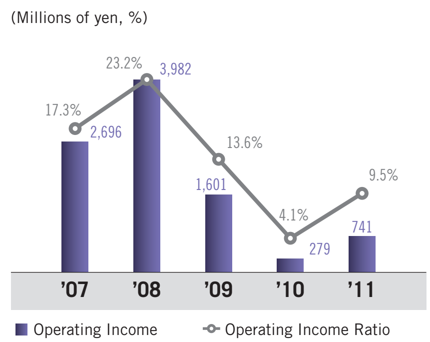
OPERATING INCOME (LOSS) & OPERATING INCOME RATIO

SPECIAL PRODUCTS

SALES BY SEGMENT

21.8%

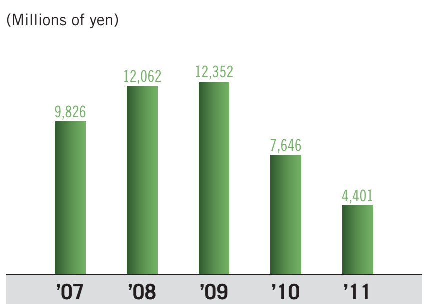


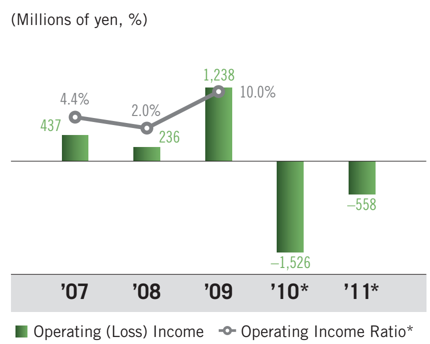


COMPONENTS

SALES BY SEGMENT

12.3%

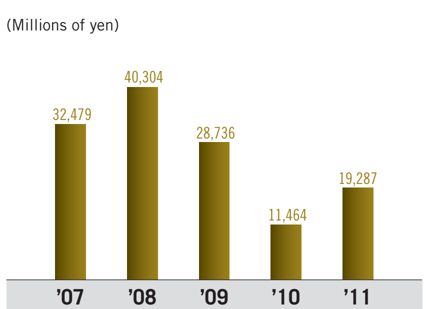


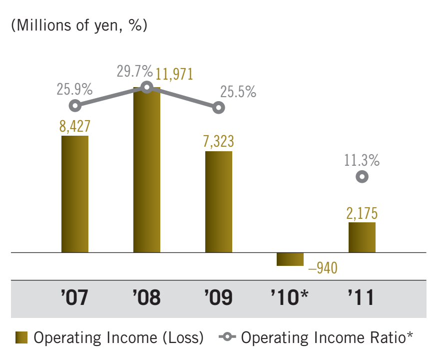


MACHINE TOOLS

SALES BY SEGMENT

54.0%

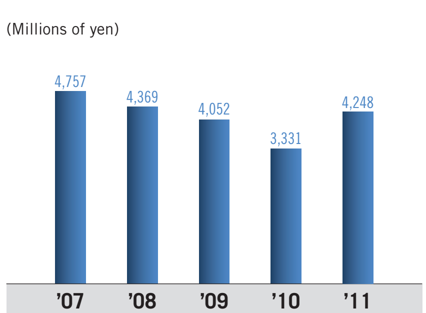


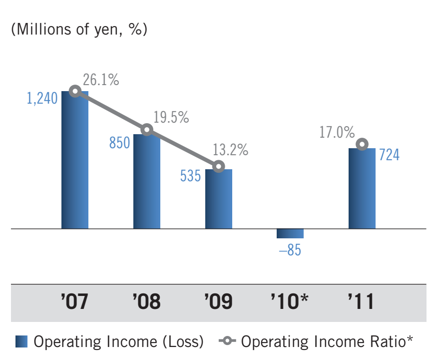


PRECISION PRODUCTS

SALES BY SEGMENT

11.9%





* No operating income ratio was calculated due to operating losses reported for all business segments except for Special Products in the fiscal year ended February 2010, and an operating loss reported for the Components Segment in the fiscal year ended February 2011.

SPECIAL PRODUCTS

Sales increased on steady demand in China, South America and other emerging markets, along with a rebound in North American markets.

TSP100 POS Printer

The *TSP100* offers dependable, high-speed printing even of complex data, thanks to a redesigned method for the control and processing of printed data. A wealth of printer utilities includes 180-degree letter rotation of print data. New to the lineup is the *TSP100ECO*, which boasts power- and paper-saving features. With an expanded lineup, the *TSP100* has become the talk of the industry, widely used in department stores, supermarkets, restaurants and other locations throughout the world.

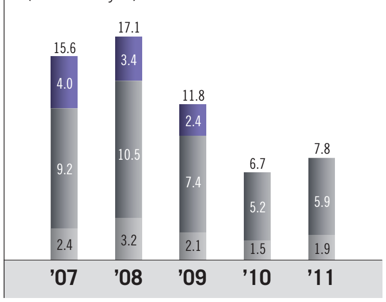
SHIPMENTS OF POS PRINTERS

(Thousands of units)

	2010	**2011**	Change (%)
Europe	124	**118**	(4.8)
America	169	**192**	13.6
Asia	77	**139**	80.5
Japan and elsewhere	20	**46**	130.0
Total	390	**495**	26.9

SPECIAL PRODUCTS SEGMENT SALES

(Billions of yen)



■ POS Thermal Printers and Others
■ POS Dot Matrix Printers
■ Computer Printers

* The Company withdrew from computer printers in the fiscal year ended February 2009.

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

Point-of-sale (POS) printers are the main products in the Special Products Segment.

In fiscal 2011, the printer market was characterized by a gradual recovery as the economic situation began to rebound from the global downturn.

Analyzing results by region, China and the United States were the two markets with marked recovery in demand. Sales in China were particularly robust, as government stimulus measures spurred demand for POS printers and printers used in highway management. In the United States, signs of improved consumer confidence supported a mild economic recovery, though continued high unemployment and other issues have left doubts over the prospects for a full-fledged recovery in personal consumption. In South America, the economic downturn had a limited effect on the market, and demand remained steady.

In Europe, meanwhile, though there were differences among nations in the pace of recovery, demand for printers was sluggish as the overall market environment remained severe.

In terms of new products, the Company launched an eco-friendly thermal printer, a mobile printer for on-demand settlement systems, among others. In addition, a sales office was established in Thailand in September 2010 to serve the expected growth in demand for printers in Southeast Asia.

As a result of the above factors, segment sales and operating income rose sharply in the fiscal year. Sales grew 15.5% compared to the previous year, or ¥1,042 million, to ¥7,782 million (US$94,902 thousand). Operating income soared 165.6%, or ¥462 million, to ¥741 million (US$9,037 thousand).

OUTLOOK FOR FISCAL 2012

A gentle recovery is forecast in European markets, as well as strong performance in North and South America, and China. Star Micronics will also continue expansion in Southeast Asia, where further growth is anticipated, based on a new sales base in Thailand. Similarly, plans are afoot to introduce new products targeting emerging economies.

For business results, we are projecting segment sales of ¥8,250 million, up 6.0% from the previous fiscal year, and operating income of ¥690 million, a decrease of 6.9% year on year.

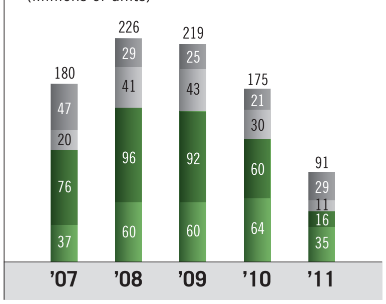
COMPONENTS

In response to severe market conditions, we shifted the focus of our components business from mobile phones to the automotive sector. We continue to reform our sales structure with an emphasis on improving profitability.

RBB-04 BA Receiver

The *RBB-04* is a balanced armature (BA) receiver that is more sensitive than conventional dynamic receivers, resulting in more natural sound reproduction. As a result of this feature, the *RBB-04* can be found in applications ranging from hearing aids to premium quality headphones. Star Micronics deals not only in stand-alone BA receivers, but also supplies in-ear headphones that incorporate this technology on an OEM basis.

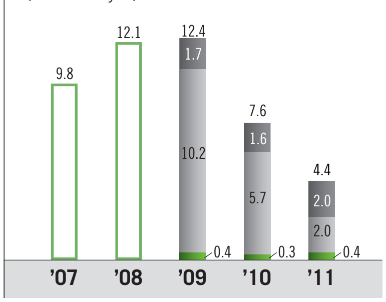
COMPONENTS SEGMENT SALES BY VOLUME
(Millions of units)



- Buzzers
- Speakers
- Receivers
- Microphones & Others

COMPONENTS SEGMENT SALES

(Billions of yen)



- Products for Automobiles
- Mobile Devices
- Home Electric Appliances, Medical and Others
- Figures by product category are not disclosed for the period up to and including fiscal 2008 due to changes in the range of products handled.

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

The Components Segment includes a wide range of micro audio components, including microphones, receivers, speakers and electronic buzzers. Star Micronics has responded to the diversification of the customer base by revamping its product strategy and pursuing opportunities in new markets. New component applications include automobile ETC terminals and a wide range of digital equipment.

In fiscal 2011, the Company shifted the focus of its business from mobile phones, a challenging market with low profit margins, to automobile components. Though the automobile market is smaller than the mobile phone market, customers have extremely strict quality requirements. By supplying high-quality products to meet these needs, the Company plans to avoid price competition with rivals and secure profitability.

In the automobile market, though domestic car sales slowed in the second half of the fiscal year, the market remained in a general recovery trend, and the Company enjoyed firm sales, mainly for components used in ETC terminals and other products.

The market environment for mobile phone components remained very severe due to intensified price competition, mainly with manufacturers in China.

The Company strove to secure profitability by reducing the number of employees at overseas factories and through other structural reforms.

Looking at sales volume by product type, sales of microphones and others declined sharply, by 45.3% compared to the previous year, to about 35 million units. Receiver sales declined 73.3% year on year to 16 million units, while speaker sales declined 63.3% to 11 million units. Electronic buzzer sales increased 38.1% year on year to 29 million units.

As a result of the above factors, sales in the Component Segment declined 42.4%, or ¥3,245 million, to ¥4,401 million (US$53,671 thousand). As a result of this sales decline, the Company posted an operating loss of ¥558 million (US$6,805 thousand).

OUTLOOK FOR FISCAL 2012

With the emphasis on profitability, we are shifting the pivotal focus of this segment from mobile phones to the automobile sector, among other actions. With that said, given ever more severe market conditions resulting from a number of recent developments, such as wage inflation in the Chinese industrial sector and shortages of rare earth materials, replacing it with the automobile sector alone is not feasible. Our intention going forward is to review our operations in this segment and determine the future direction of the business as quickly as possible.

Turning to the outlook for fiscal 2012, we anticipate a drop in net sales of 34.6% year on year, to ¥2,880 million, and an operating loss of ¥1,050 million, compared to the operating loss of ¥558 million recorded in fiscal 2011.

MACHINE TOOLS

We posted greatly improved results by taking advantage of rebounding demand as market conditions recovered. We are striving to expand market share by entering new markets and establishing new brands.

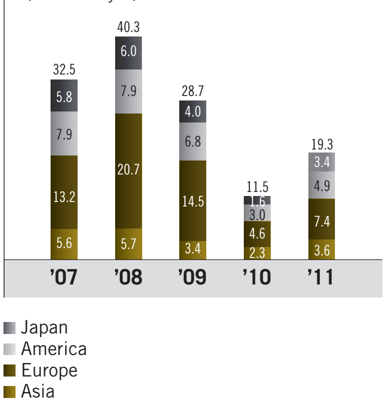
***ECAS-20T* Swiss-Type Automatic Lathe**

Developed as a sophisticated machine tool for complex machining, the *ECAS-20T* has been a market favorite since its release in 2008. The *ECAS-20T* is equipped with a proprietary control format called the Star Motion Control System, which helps reduce idle machine time, as well as a three-turret configuration for higher productivity. The *ECAS-20T* has also been recognized for its superior design, receiving the Japan Machine Tool Builders' Association prize for outstanding industrial machinery design.

MACHINE TOOLS SEGMENT SALES VOLUME BY GEOGRAPHICAL REGION
(Units)

	2010	2011	Change (%)
Japan	159	**295**	85.5
America	145	**258**	77.9
Europe	212	**429**	102.4
Asia	364	**514**	41.2
Total	880	**1,496**	70.0

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION
(Billions of yen)



BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

Star Micronics' Swiss-Type CNC automatic lathes have garnered international acclaim and enjoy high market shares globally. Key products are the SV series, ideal for the high-precision, complex machining required in the manufacture of medical and other components; the top-of-the-range *ECAS* series, which incorporates the Star Motion Control System; and the *SB* series of machine tools entirely made in China that offer superior cost performance.

In fiscal 2011, the environment improved considerably, with recovery seen in Europe and steady demand in the United States. In Europe, export industries such as automobiles and precision machinery rebounded on the back of the weaker euro. Orders from Germany, Switzerland, the U.K. and other countries rebounded as manufacturers renewed capital investments after restraining spending the past several years due to the economic downturn. Orders also rose in the U.S., thanks mainly to demand from medical equipment manufacturers.

Orders in Asia were brisk. In addition to higher orders from China, business in Southeast Asia increased on demand from automobile and motorcycle manufacturers. In Japan, automobile manufacturers remained cautious on domestic capital investments, but continued to aggressively expand spending on overseas plants.

During the year, major initiatives included the launch of the *SF-25* turning center and the *SG-42* CNC automatic lathe with fixed-headstock, along with the expansion of product sales into new markets.

As a result of the above factors, fiscal 2011 results improved greatly over the previous year. Sales volume jumped 70.0% to 1,496 units. By value, sales soared 68.2% to ¥19,287 million (US$235,207 thousand), while operating income totaled ¥2,175 million (US$26,525 thousand).

OUTLOOK FOR FISCAL 2012

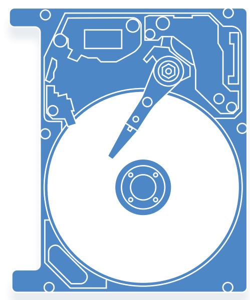
Orders will likely be strong, particularly in Europe and the United States, with major growth in sales expected in European and Asian markets. Star Micronics will also aim for sales expansion in existing products, in addition to new turning centers, fixed-headstock CNC automatic lathes and strategic products for the Chinese market.

In terms of performance, we are projecting sales of ¥26,170 million, up 35.7% from the previous fiscal year, and operating income of ¥4,070 million, up 87.1% for the same period.

In order to augment production capacity, Star Micronics has opted to establish a new machine tools production subsidiary and production plant in Nakhon Ratchasima Province, Thailand. The tentative date for establishment of the subsidiary is August 2011, with the production plant scheduled to begin operating in October 2012. In the fiscal year ending February 28, 2018, the establishment of the new production base, what will be one of three bases in a production network spanning Japan, China and Thailand, is set to give Star Micronics a total monthly production output of 500 units and an annual output of 6,000 units.

PRECISION PRODUCTS

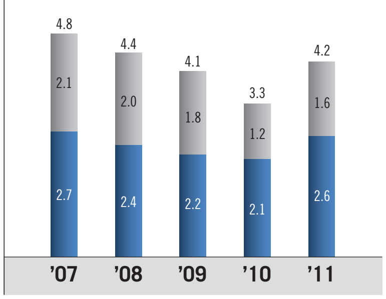
Sales of both wristwatch components and non-wristwatch components improved in tandem with the recovering global economy.



Components for Compact Hard Disk Drives (HDDs)

Demand for HDDs continues to rise, and Star Micronics supplies key components for HDDs installed in notebook PCs and other devices. These components are chiefly produced by our production subsidiary Star Micronics Precision (Thailand) Co., Ltd. based in Ayutthaya, Thailand. Covering the full range of operations from machining of HDD components to surfacing and precision wash treatment, Star Micronics Precision (Thailand) meets the expectations of local HDD manufacturers by providing them with a stable supply of high-quality products.

PRECISION PRODUCTS SEGMENT SALES
(Billions of yen)



Wristwatch Components
Non-wristwatch Components

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

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

The market for wristwatch components has little prospect for high growth over the long term, and therefore the Company's strategy is to increase earnings by focusing on markets for non-wristwatch components. Star Micronics is applying its precision processing technology to fields where precision components are difficult to manufacture: hard disk drive (HDD) components, medical components such as dental drills, implant parts and bone screws for bone-setting, automotive components, and optical fiber connector parts.

Wristwatch component sales increased 29.3% year on year to ¥1,615 million (US$19,695 thousand). Amid the global economic recovery, the Company benefitted from an increase in the market shares of high-quality Japanese wristwatch manufacturers.

In the non-wristwatch components business, sales to car audio equipment manufacturers in China and other markets grew in tandem with a recovery in automobile demand. Sales of HDD components also increased despite production adjustments by HDD manufacturers in the second half of the year.

Overall, non-wristwatch sales jumped 26.5% year on year to ¥2,633 million (US$32,110 thousand), and accounted for 62.0% of total segment sales.

As a result of the above factors, total segment sales increased 27.5%, or ¥917 million, to ¥4,248 million (US$51,805 thousand). As a result of the sales increase, the Company posted operating income of ¥724 million (US$8,829 thousand).

OUTLOOK FOR FISCAL 2012

A slight year-on-year increase in wristwatch component sales is anticipated based on brisk performance among Japanese wristwatch manufacturers. In non-wristwatch components, growth is likely to be sluggish in sales of automobile-related components, among others products.

Consequently, we are projecting segment sales of ¥4,200 million, down 1.1% year on year, and operating income of ¥670 million, down 7.5%.

CORPORATE GOVERNANCE

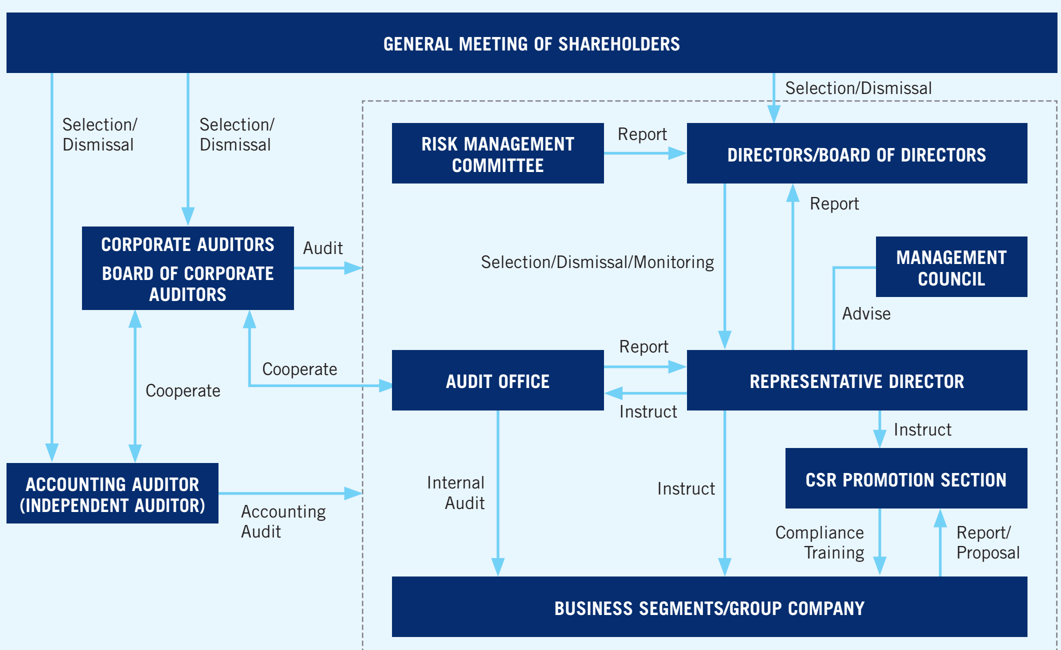
CORPORATE GOVERNANCE INITIATIVES

At Star Micronics, our basic approach to corporate governance is based on fulfilling our responsibilities as a company by working to increase corporate value in a sustained manner through proper and efficient management, and appropriately distributing the resulting profits to shareholders and other stakeholders.

Star Micronics uses the corporate auditor system. Under this system, the Board of Directors is responsible for making rapid and reasoned management decisions and executing strategy in a flexible manner. To ensure proper decision-making and operational execution, we have appointed corporate auditors, including full-time auditors, all of whom are outside appointments. We have also concluded an audit contract with the accounting auditor, Deloitte Touche Tohmatsu LLC. The accounting auditor works with the Board of Corporate Auditors to conduct appropriate audits of the Company.

In order to ensure compliance with all relevant laws and regulations and business ethics, we have established a dedicated internal organization to promote compliance as well as formulated the Star Micronics Charter of Corporate Conduct and a Code of Conduct. In addition, we are taking steps to enhance our internal control system, such as by establishing a Risk Management Committee, to mitigate and respond to risks faced by the Company.

STAR MICRONICS' CORPORATE GOVERNANCE SYSTEM



FINANCIAL SECTION

CONTENTS

CONSOLIDATED ELEVEN-YEAR SUMMARY

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Eleven years ended the last day of February

	2011	2010	2009	2008
For the year:				
Net sales	**¥35,718**	¥ 29,181	¥56,953	¥73,884
Cost of sales	**23,265**	22,326	33,535	42,207
Selling, general and administrative expenses	**11,024**	10,840	14,873	17,025
Operating income (loss)	**1,429**	(3,985)	8,545	14,652
Other (expenses) income – net	**(1,069)**	(2,665)	(984)	(271)
Income (loss) before income taxes and minority interests	**360**	(6,650)	7,561	14,381
Income taxes	**107**	1,800	3,147	6,190
Minority interests in net income	**92**	105	76	111
Net income (loss)	**161**	(8,555)	4,338	8,080
Net cash provided by operating activities	**3,520**	4,769	6,152	10,666
Net cash used in investing activities	**(1,518)**	(1,194)	(1,314)	(8,072)
Free cash flows	**2,002**	3,575	4,838	2,594
Net cash used in financing activities	**(1,813)**	(3,977)	(9,077)	(2,152)
Per share:				
Basic net income (loss)	**¥ 3.71**	¥(187.95)	¥ 85.66	¥150.74
Diluted net income			85.63	150.47
Cash dividends applicable to the year	**22.00**	22.00	45.00	56.00
At year-end:				
Current assets	**¥34,836**	¥ 34,346	¥44,762	¥63,152
Net property, plant and equipment	**10,549**	11,678	15,169	17,728
Total assets	**49,250**	50,681	64,205	86,375
Long-term liabilities	**423**	592	459	696
Total equity	**37,096**	41,261	52,986	66,602
Stock exchange price per share of common stock:				
Highest	**¥1,182**	¥1,020	¥2,175	¥3,740
Lowest	**702**	595	773	1,506
Selected financial indicators:				
Equity ratio (%)	**73.9**	80.1	81.5	76.2
ROE (%)	**0.4**		7.3	12.8
Dividend payout ratio (%)	**593.0**		52.5	37.2
Dividend on equity (%)	**2.5**	2.2	3.8	4.7

Millions of yen (Except for per share data)						
2007	2006	2005	2004	2003	2002	2001
¥62,670	¥54,788	¥49,690	¥43,332	¥38,612	¥43,265	¥52,304
37,004	32,875	30,742	28,161	25,225	27,295	33,863
15,222	13,805	12,605	11,621	10,979	11,907	12,089
10,444	8,108	6,343	3,550	2,408	4,063	6,352
410	(68)	(688)	(286)	(980)	(1,911)	(1,036)
10,854	8,040	5,655	3,264	1,428	2,152	5,316
3,719	2,799	1,881	828	997	1,557	2,014
122	89	(1)	10	(3)	18	28
7,013	5,152	3,775	2,426	434	577	3,274
10,711	4,594	6,891	8,024	8,085	(285)	8,019
(3,169)	(3,619)	(2,016)	(1,582)	(1,606)	(4,429)	(7,073)
7,542	975	4,875	6,442	6,479	(4,714)	946
(1,331)	(866)	(2,149)	(5,265)	(2,218)	1,219	(1,135)
¥131.09	¥ 95.60	¥ 70.13	¥ 44.12	¥ 7.77	¥ 10.21	¥ 57.91
130.73	95.38	70.09				
32.00	21.00	15.00	11.00	10.00	10.00	10.00
¥53,620	¥44,615	¥40,170	¥36,355	¥38,424	¥37,979	¥48,053
16,355	16,210	14,698	15,604	17,602	19,430	17,626
76,195	66,826	60,013	57,898	62,403	65,394	72,211
920	793	349	1,277	2,575	2,227	1,442
61,396	54,295	47,754	44,613	45,024	46,978	46,799
Yen						
¥2,710	¥2,090	¥1,030	¥830	¥1,120	¥1,704	¥2,120
1,691	941	704	418	420	490	1,024
79.9	81.2	79.6	77.1	72.2	71.8	64.8
12.2	10.1	8.2	5.4	0.9	1.2	7.3
24.4	22.0	21.4	24.9	128.7	97.9	17.3
3.0	2.2	1.7	1.3	1.2	1.2	1.3

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

(Years ended February 28, 2011 and 2010)

Business Environment

The fiscal year ending February 2011 saw a gradual recovery in the U.S. economy while the European economies remained steady overall despite growing concerns over the fiscal crisis in the euro-zone. Meanwhile, the emerging economies continued to see high growth led by China, and the Japanese economy continued to stage a gradual recovery despite the ongoing appreciation of the yen.

Net Sales

(Millions of yen)

2010	**2011**	Change (%)
¥29,181	**¥35,718**	22.4

Sales improved sharply as demand rebounded particularly in the Machine Tools segment, and also in the Special Products and Precision Products segments.

Operating Income (Loss)

(Millions of yen)

2010	**2011**	Change (%)
¥(3,985)	**¥1,429**	–

Operating income saw a vast improvement thanks to the large increase in sales and reductions in fixed costs.

Net Income (Loss)

(Millions of yen)

2010	**2011**	Change (%)
¥(8,555)	**¥161**	–

This term saw the Company return to profitability despite factors including special severance payments for early retired employees.

Cash Dividends per Share

(Yen)

2010	**2011**	Change (Yen)
¥22.00	**¥22.00**	¥0

The cash dividends applicable to the year remained at ¥22, unchanged from the previous fiscal year.

Total Assets

(Millions of yen)

2010	**2011**	Change (%)
¥50,681	**¥49,250**	(2.8)

Total assets were lower, largely due to the impact of foreign exchange rates and reductions in fixed assets reflecting restrained investment.

Free Cash Flows

(Millions of yen)

2010	**2011**	Change (%)
¥3,575	**¥2,002**	(44.0)

This term saw a sharp decline year-on-year. This was due to factors that included severance payments for early retired employees, and an increase in trade notes and accounts receivable. Inventories, the subject of major reductions in the previous term, saw an increase in fiscal 2011 to normal levels.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

2010	**2011**	Change (%)
¥1,586	**¥974**	(38.6)

Capital expenditure declined due to curbs on investment, mainly in the Components Segment.

Sales by Region

(Millions of yen)

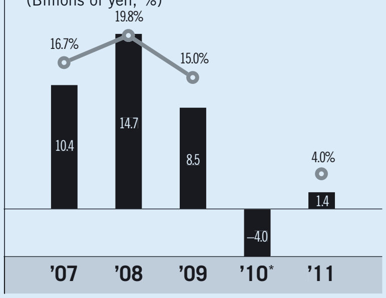
	2010	**2011**	Change (%)
Europe	¥ 7,357	**¥9,979**	35.6
America	6,054	**8,516**	40.7
Asia	10,333	**9,589**	(7.2)
Japan	5,437	**7,634**	40.4

Sales rebounded strongly in all regions except Asia. Sales were brisk in Europe, Germany in particular, thanks to the weak euro. Sales also showed steady growth in the American market, with medical-related fields particularly strong.

INCOME ANALYSIS

▶ Return to profitability on sharp sales increases in core businesses.

OPERATING INCOME (LOSS) AND OPERATING INCOME RATIO
(Billions of yen, %)



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

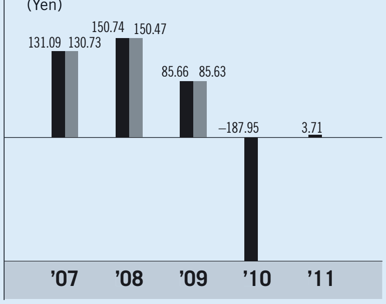
For fiscal 2011, the fiscal year under review, Star Micronics reported consolidated sales of ¥35,718 million (US$435,585 thousand), up 22.4%, or ¥6,537 million, year on year. This outcome reflected steady growth in Asian markets, as well as outstanding revenue growth in our core businesses, Machine Tools, Special Products, and Precision Products resulting from factors such as rebounding demand in North American and European capital investment markets. The cost of sales increased ¥939 million, or 4.2%, to ¥23,265 million (US$283,719 thousand). As a result of the above, gross profit increased ¥5,598 million, or 81.7%, year on year to ¥12,453 million (US$151,866 thousand). The gross profit margin increased 11.4 percentage points to 34.9%. This was due primarily to the high-margin Machine Tools Segment accounting for a 14.7 percentage point higher share of total sales, to 54.0%, a substantial recovery in sales of POS printers in the Special Products Segment, and increased sales of wristwatch components in the Precision Products Segment.

Selling, general and administrative (SG&A) expenses increased ¥184 million year on year, or 1.7%, to ¥11,024 million (US$134,439 thousand). This increase was due mainly to higher transportation and packaging costs, and an increase in direct costs, such as advertising and promotional costs, sales commissions, and other items increasing in line with rising sales.

As a result of the above, the Company recovered from last term's operating loss of ¥3,985 million to post operating income of ¥1,429 million (US$17,427 thousand) this term.

▶ The return to profitability was unhampered by booking of loss items such as special severance payments for early retired employees.

NET INCOME (LOSS) PER SHARE
(Yen)



■ Basic Net Income (Loss)
■ Diluted Net Income

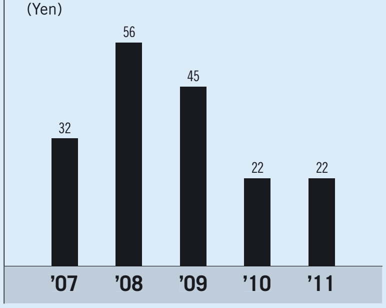
Other expenses—net narrowed to ¥1,069 million (US$13,037 thousand) this term compared to ¥2,665 million in the previous fiscal year. This mostly reflected the fact that interest and dividend income decreased ¥54 million year on year, or 23.8%, to ¥173 million (US$2,110 thousand), as well as special severance payments for early retired employees of ¥957 million (US$11,671 thousand). The foreign exchange loss—net deteriorated by ¥119 million, or 35.3%, to ¥456 million (US$5,561 thousand).

As a result, the Company recorded income before income taxes and minority interests of ¥360 million (US$4,390 thousand). Total income taxes were ¥107 million (US$1,305 thousand). Net income after deducting minority interests was ¥161 million (US$1,963 thousand).

Basic net income per share was ¥3.71 (US$0.05).

▶ The Company will institute shareholder returns in close consideration of dividend on equity (DOE), targeting a dividend payout ratio of at least 40%.

CASH DIVIDENDS PER SHARE
(Yen)

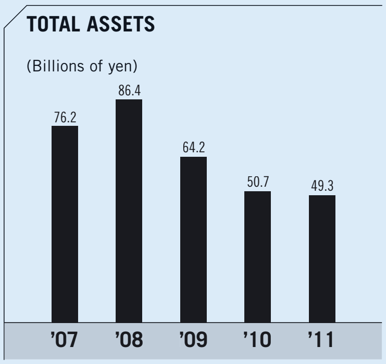


The annual dividend for the year under review will remain unchanged from the previous term, at ¥22 (US$0.27). Total dividends decreased ¥42 million, or 4.2%, to ¥959 million (US$11,695 thousand).

Regarding future dividends, the Company is emphasizing shareholder returns and is therefore aiming for a total shareholder return ratio of at least 40%. Dividend on equity (DOE) will also be considered in setting future dividends. As a result, taking DOE into account in light of steadily improving profitability, we plan to pay an annual dividend of ¥26 per share for the fiscal year ending February 2012, up ¥4 from the previous fiscal year. This dividend is expected to consist of interim and year-end dividends of ¥13 per share, both ¥2 higher than a year ago.

FINANCIAL POSITION & LIQUIDITY

▶ **Restrained investment and other factors resulted in lower fixed assets.**



Total current assets as of February 28, 2011 were ¥34,836 million (US$424,829 thousand), an increase of ¥490 million, or 1.4%, compared with the previous fiscal year-end. This increase chiefly reflected an increase in short-term investments of ¥576 million, or 57.5%, to ¥1,578 million (US$19,244 thousand), as well as an increase in inventories of ¥502 million, or 5.6%, to ¥9,522 million (US$116,122 thousand) as production levels began to recover, offset by a decrease in cash and cash equivalents of ¥1,156 million, or 8.0%, to ¥13,217 million (US$161,183 thousand).

Net property, plant and equipment decreased ¥1,129 million, or 9.7%, to ¥10,549 million (US$128,647 thousand). This downward trend, continuing from the previous fiscal year-end, was due to a decline in machinery and equipment of ¥943 million, or 3.9%, to ¥23,109 million (US$281,817 thousand) owing to restrained investment. Total investments and other assets decreased ¥792 million, or 17.0%, to ¥3,865 million (US$47,134 thousand). This was due to a decrease in deferred tax assets of ¥165 million to ¥517 million (US$6,305 thousand).

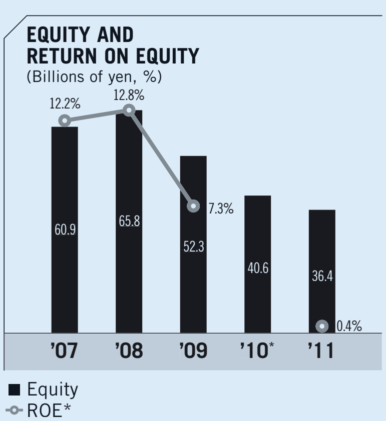
As result of the above, total assets decreased ¥1,431 million, or 2.8%, year on year to ¥49,250 million (US$600,610 thousand).

▶ **Total liabilities increased due to increased trade notes and accounts payable as a result of an increase in purchases.**

On the other side of the balance sheet, current liabilities increased ¥2,903 million, or 32.9%, to ¥11,731 million (US$143,061 thousand). This increase reflected an increase in trade notes and accounts payable of ¥3,045 million, or 108.1%, to ¥5,861 million (US$71,476 thousand) as a result of higher sales, offset by a decrease in deferred tax liabilities of ¥786 million, or 60.0%, to ¥525 million (US$6,402 thousand).

Total long-term liabilities decreased ¥169 million, or 28.5%, to ¥423 million (US$5,159 thousand).

▶ **In equity, retained earnings fell due to the acquisition of treasury stock and the payment of dividends, and despite posting net income in the fiscal year under review.**

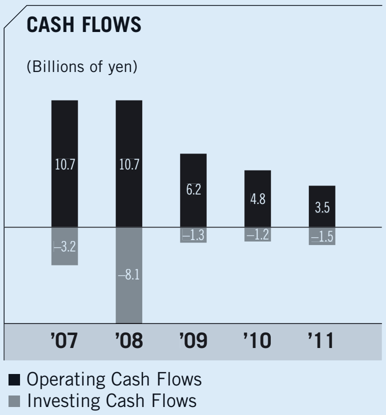


* ROE was not calculated for fiscal 2010 because net loss was incurred.

Equity fell ¥4,198 million, or 10.3%, to ¥36,412 million (US$444,049 thousand) despite the Company posting net income of ¥161 million. This was largely the result of a decline in retained earnings of ¥808 million, or 3.0% year on year, to ¥25,779 million (US$314,378 thousand), as well as a decline in foreign currency translation adjustments of ¥2,546 million, or 45.5%, to ¥8,147 million (US$99,354 thousand). Total equity including minority interests was ¥37,096 million (US$452,390 thousand). The equity ratio fell 6.2 percentage points to 73.9%, while equity per share decreased ¥76.24 to ¥845.31 (US$10.31).

CASH FLOWS

▶ **Net cash provided by operating activities decreased yet still exceeded net cash used in investing activities.**



Net cash provided by operating activities decreased ¥1,249 million to ¥3,520 million (US$42,927 thousand). This outcome was largely attributable to income before income taxes and minority interests of ¥360 million (US$4,390 thousand) reflecting a substantial improvement in operating results. On the other hand, adjustments for depreciation and amortization decreased ¥1,122 million to ¥1,762 million (US$21,488 thousand), and trade receivables, inventories, and trade payables decreased ¥5,544 million to ¥1,595 million (US$19,451 thousand).

Net cash used in investing activities was ¥1,518 million (US$18,512 thousand), an increase of ¥324 million year on year. This chiefly reflected increases in net cash used in activities other than the purchase of property, plant and equipment which, conversely, fell ¥683 million to ¥981 million (US$11,963 thousand), due to efforts to curb capital investments.

▶ **Cash and cash equivalents decreased due to exchange rates and payments for purchase of treasury stock.**

Net cash used in financing activities was ¥1,813 million (US$22,110 thousand), an improvement of ¥2,164 million from the previous fiscal year. This was mainly the result of a decrease of ¥220 million in dividends paid to shareholders to ¥975 million (US$11,891 thousand), along with a decline in payments for purchase of treasury stock to ¥839 million (US$10,231 thousand).

As a result of the above, after foreign currency translation adjustments of ¥1,345 million (US$16,402 thousand), cash and cash equivalents as of February 28, 2011 totaled ¥13,217 million (US$161,183 thousand), representing a net decrease of ¥1,156 million year on year.

CAPITAL EXPENDITURES AND R&D EXPENSES

▶ **Capital expenditures declined year on year**

Capital expenditures in fiscal 2011 fell ¥612 million, or 38.6%, year on year to ¥974 million (US$11,878 thousand). In fiscal 2012, the Company is forecasting capital expenditures of ¥2,827 million.

Special Products

Expenditures in the Special Products Segment fell ¥72 million year on year to ¥56 million (US$683 thousand). In fiscal 2012, the Company is budgeting expenditures in this segment in the amount of ¥312 million, mainly for dyes for new models.

Components

Expenditures in the Components Segment fell ¥483 million year on year to ¥89 million (US$1,085 thousand). In fiscal 2012, the Company is budgeting expenditures in this segment in the amount of ¥157 million, mainly for dyes for new models.

Machine Tools

Expenditures in the Machine Tools Segment were unchanged from the previous fiscal year at ¥465 million (US$5,671 thousand). In fiscal 2012, we anticipate that ¥1,106 million will be spent on investments such as the construction of a new production plant in Thailand, equipment for making new products, and other items.

Precision Products

Expenditures in the Precision Products Segment fell ¥78 million year on year to ¥190 million (US$2,317 thousand). In fiscal 2012, we expect to spend ¥884 million mainly on the acquisition of land and buildings for production sites overseas, as well as on bolstering production capacity, namely through increased production equipment for automatic lathes at overseas production sites.

Head Office and Others

In fiscal 2012, we plan to invest ¥368 million for the upgrading of information systems, and other items.

▶ R&D expenses declined year on year

Research and development (R&D) expenses in fiscal 2011 were ¥1,755 million (US$21,402 thousand), a decrease of ¥195 million, or 10.0%, from the previous year. This represented 4.9% of total sales, a decrease of 1.8 percentage points year on year.

The R&D framework for the whole Group comprises the Research and Development Department, which cultivates new businesses and 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.

Research and Development Department

As a result of corporate reorganization enacted during fiscal 2011, this department is now responsible for cultivating commercially viable businesses in new fields, and step up activities to provide technical support to all of the Company's segments. In terms of cultivating new businesses, the Company is considering entering into partnerships with companies outside the Group in order to expedite the launch of new ventures. Regarding technical support, the department worked to raise the technology level of the whole Company. Activities included promoting technology, mainly by conducting physico-chemical analysis, advanced computer-aided engineering (CAE), and quality engineering, as well as conducting quality control and patent operations.

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 environmental impact while retaining high quality and reliability. In fiscal 2011, the Company developed a range of new products, including utility software compatible with multiple printer products and local-language printers for Southeast Asian markets.

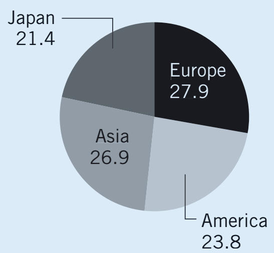
Components

New product development in this segment included a new dynamic speaker for the automotive market, the *SAG-40* Series, with a rich sound, flat frequency response and high thermal shock resistance. In addition, there are a number of accessories under development with hearing aid and headphone applications using BA receivers in response to customer demand. These accessories draw on our micro audio technologies.

Machine Tools Four new products were developed in fiscal 2011: the Swiss-type high-performance multi-axis lathe *ST-38*, the low-cost automatic lathe series *SB-20*, the turning center *SF-25* for small precision components and the fixed-headstock CNC automatic lathe *SG-42* for machining large-diameter precision parts, all targeting new markets. Development in the software field centered mainly on ongoing improvements in operability, functionality and safety features, always with a firm eye on market needs.

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 on a global scale, the Company operates an extensive network of overseas sites. (See table)

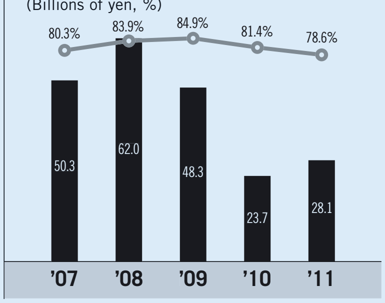
	U.K.	Germany	France	Switzerland
Special Products	Star Micronics Europe Ltd.			
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG

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

* Star Micronics America, Inc. markets components in addition to special products.
* In the Special Products Segment, realignment in our China and Southeast Asia sales network for POS printers saw a sales base established in September 2010 at our Thailand site, Star Micronics (Thailand) Co., Ltd., to replace Star Micronics Asia Ltd., which ceased operations at the end of December 2010.

▶ **Overseas sales as a proportion of total sales fell 2.8 percentage points to 78.6% while sales increased in Europe, America and Japan.**

OVERSEAS SALES AND PROPORTION OF TOTAL SALES
(Billions of yen, %)



■ Overseas Sales
-o- Proportion of Total Sales

In the fiscal year under review, overseas sales as a proportion of total sales decreased 2.8 percentage points to 78.6%.

By region, in Europe, net sales increased ¥2,622 million to ¥9,979 million (US$121,695 thousand), representing 27.9% of total sales, a 2.7 percentage points increase from the previous fiscal year.

In America, net sales increased ¥2,462 million to ¥8,516 million (US$103,854 thousand). The share of total sales in America rose 3.0 percentage points to 23.8%.

Net sales in Asia decreased ¥744 million to ¥9,589 million (US$116,939 thousand). The share of total sales in Asia decreased 8.5 percentage points to 26.9%.

In Japan, the main products are machine tools and precision products. Domestic sales increased ¥2,197 million to ¥7,634 million (US$93,097 thousand), representing 21.4% of total sales, up by 2.8 percentage points year on year.

CONSOLIDATED BALANCE SHEETS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2011**	2010	**2011**
Current assets:			
Cash and cash equivalents (Note 14)	**¥ 13,217**	¥ 14,373	**$ 161,183**
Marketable securities (Notes 3 and 14)	**406**		**4,951**
Short-term investments (Notes 4 and 14)	**1,578**	1,002	**19,244**
Receivables (Note 14):			
Trade notes and accounts receivable	**8,904**	8,847	**108,586**
Unconsolidated subsidiaries and associated companies	**385**	267	**4,695**
Other	**575**	719	**7,012**
Allowance for doubtful receivables	**(219)**	(444)	**(2,671)**
Inventories (Note 5)	**9,522**	9,020	**116,122**
Deferred tax assets (Note 11)	**150**	229	**1,829**
Prepaid expenses and other	**318**	333	**3,878**
Total current assets	**34,836**	34,346	**424,829**
Property, plant and equipment (Note 6)**:**			
Land	**2,450**	2,458	**29,878**
Buildings and structures	**12,754**	12,601	**155,537**
Machinery and equipment	**23,109**	24,052	**281,817**
Lease assets	**72**	50	**878**
Construction in progress	**1**	370	**12**
Total	**38,386**	39,531	**468,122**
Accumulated depreciation	**(27,837)**	(27,853)	**(339,475)**
Net property, plant and equipment	**10,549**	11,678	**128,647**
Investments and other assets:			
Investment securities (Notes 3 and 14)	**2,274**	2,732	**27,731**
Investments in and advances to unconsolidated subsidiaries and associated companies	**137**	166	**1,671**
Goodwill		10	
Deferred tax assets (Note 11)	**517**	682	**6,305**
Other assets	**937**	1,067	**11,427**
Total investments and other assets	**3,865**	4,657	**47,134**
Total	**¥ 49,250**	¥ 50,681	**$ 600,610**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Current liabilities:			
Payables (Note 14):			
Trade notes and accounts payable	**¥ 5,861**	¥ 2,816	**$ 71,476**
Unconsolidated subsidiaries and associated companies	**3**		**37**
Other	**1,193**	1,207	**14,549**
Short-term bank loans (Notes 7 and 14)	**2,000**	2,000	**24,390**
Current portion of long-term debt (Note 7)	**16**	11	**195**
Income taxes payable (Note 11)	**206**	226	**2,512**
Accrued expenses	**569**	589	**6,939**
Deferred tax liabilities (Note 11)	**525**	1,311	**6,402**
Other	**1,358**	668	**16,561**
Total current liabilities	**11,731**	8,828	**143,061**
Long-term liabilities:			
Long-term debt (Note 7)	**48**	42	**585**
Liability for retirement benefits (Note 8)	**46**	43	**561**
Deferred tax liabilities (Note 11)	**199**	257	**2,427**
Other	**130**	250	**1,586**
Total long-term liabilities	**423**	592	**5,159**
Contingent liabilities (Note 13)			
Equity (Notes 9, 10 and 18):			
Common stock, – authorized, 158,000,000 shares;			
issued, 51,033,234 shares in 2011 and 2010	**12,722**	12,722	**155,146**
Capital surplus	**13,876**	13,876	**169,220**
Retained earnings	**25,779**	26,587	**314,378**
Unrealized gain on available-for-sale securities	**46**	62	**561**
Foreign currency translation adjustments	**(8,147)**	(5,601)	**(99,354)**
Treasury stock – at cost			
7,956,911 shares in 2011 and 6,965,942 shares in 2010	**(7,864)**	(7,036)	**(95,902)**
Total	**36,412**	40,610	**444,049**
Minority interests	**684**	651	**8,341**
Total equity	**37,096**	41,261	**452,390**
Total	**¥49,250**	¥50,681	**$600,610**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net sales	**¥35,718**	¥29,181	**$435,585**
Cost of sales (Note 8)	**23,265**	22,326	**283,719**
Gross profit	**12,453**	6,855	**151,866**
Selling, general and administrative expenses (Notes 8 and 12)	**11,024**	10,840	**134,439**
Operating income (loss)	**1,429**	(3,985)	**17,427**
Other income (expenses):			
Interest and dividend income	**173**	227	**2,110**
Interest expense	**(15)**	(16)	**(183)**
Foreign exchange loss – net	**(456)**	(337)	**(5,561)**
Grant income		106	
Gain on sales of property, plant and equipment	**135**	47	**1,646**
Loss on disposals of property, plant and equipment	**(35)**	(134)	**(427)**
Loss on impairment of long-lived assets (Note 6)		(2,308)	
Special severance payments for early retired employees	**(957)**	(371)	**(11,671)**
Other – net	**86**	121	**1,049**
Other expenses – net	**(1,069)**	(2,665)	**(13,037)**
Income (loss) before income taxes and minority interests	**360**	(6,650)	**4,390**
Income taxes (Note 11):			
Current	**739**	289	**9,012**
Deferred	**(632)**	1,511	**(7,707)**
Total	**107**	1,800	**1,305**
Income (loss) before minority interests	**253**	(8,450)	**3,085**
Minority interests in net income	**92**	105	**1,122**
Net income (loss)	**¥ 161**	¥ (8,555)	**$ 1,963**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.p, 9 and 16):			
Basic net income (loss)	**¥ 3.71**	¥(187.95)	**$0.05**
Diluted net income			
Cash dividends applicable to the year	**22.00**	22.00	**0.27**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2011 and 2010

	Thousands	Millions of yen								
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost	Total	Minority interests	Total equity
Balance, February 28, 2009	46,968	¥12,722	¥13,876	¥36,232	¥(59)	¥(6,185)	¥(4,254)	¥52,332	¥654	¥52,986
Adjustment of retained earnings due to adoption of PITF No. 18 (Note 2.b)				131				131		131
Net loss				(8,555)				(8,555)		(8,555)
Cash dividends, ¥22.0 per share				(1,221)				(1,221)		(1,221)
Net increase in unrealized gain on available-for-sale securities					121			121		121
Net increase in foreign currency translation adjustments						584		584		584
Purchase of treasury stock	(2,901)						(2,782)	(2,782)		(2,782)
Net change in the year									(3)	(3)
Balance, February 28, 2010	44,067	¥12,722	¥13,876	¥26,587	¥62	¥(5,601)	¥(7,036)	¥40,610	¥651	¥41,261
Net income				**161**				**161**		**161**
Cash dividends, ¥22.0 per share				**(969)**				**(969)**		**(969)**
Net decrease in unrealized gain on available-for-sale securities					**(16)**			**(16)**		**(16)**
Net decrease in foreign currency translation adjustments						**(2,546)**		**(2,546)**		**(2,546)**
Purchase of treasury stock	**(1,002)**						**(839)**	**(839)**		**(839)**
Disposal of treasury stock	**11**						**11**	**11**		**11**
Net change in the year									**33**	**33**
Balance, February 28, 2011	**43,076**	**¥12,722**	**¥13,876**	**¥25,779**	**¥ 46**	**¥(8,147)**	**¥(7,864)**	**¥36,412**	**¥684**	**¥37,096**

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost	Total	Minority interests	Total equity
Balance, February 28, 2010	$155,146	$169,220	$324,232	$ 756	$(68,305)	$(85,805)	$495,244	$7,939	$503,183
Net income			**1,963**				**1,963**		**1,963**
Cash dividends, $0.27 per share			**(11,817)**				**(11,817)**		**(11,817)**
Net decrease in unrealized gain on available-for-sale securities				**(195)**			**(195)**		**(195)**
Net decrease in foreign currency translation adjustments					**(31,049)**		**(31,049)**		**(31,049)**
Purchase of treasury stock						**(10,231)**	**(10,231)**		**(10,231)**
Disposal of treasury stock						**134**	**134**		**134**
Net change in the year								**402**	**402**
Balance, February 28, 2011	**$155,146**	**$169,220**	**$314,378**	**$ 561**	**$(99,354)**	**$(95,902)**	**$444,049**	**$8,341**	**$452,390**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Operating activities:			
Income (loss) before income taxes and minority interests	**¥ 360**	¥ (6,650)	**$ 4,390**
Adjustments for:			
Income taxes – paid	**(853)**	(706)	**(10,402)**
Depreciation and amortization	**1,762**	2,884	**21,488**
Loss on impairment of long-lived assets		2,308	
(Reversal of) provision for doubtful receivables	**(218)**	190	**(2,659)**
Provision for retirement benefits	**3**	5	**37**
(Gain) loss on sales and disposals of property, plant and equipment	**(100)**	87	**(1,219)**
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	**(990)**	1,351	**(12,073)**
(Increase) decrease in inventories	**(1,213)**	6,620	**(14,793)**
Increase (decrease) in trade payables	**3,798**	(832)	**46,317**
Other – net	**971**	(488)	**11,841**
Total adjustments	**3,160**	11,419	**38,537**
Net cash provided by operating activities	**3,520**	4,769	**42,927**
Investing activities:			
Purchases of property, plant and equipment	**(981)**	(1,664)	**(11,963)**
Proceeds from sales of property, plant and equipment	**156**	68	**1,903**
Purchases of investment securities	**(5)**	(5)	**(61)**
Proceeds from sales of investment securities	**12**	202	**146**
Other – net	**(700)**	205	**(8,537)**
Net cash used in investing activities	**(1,518)**	(1,194)	**(18,512)**
Financing activities:			
Dividends paid to shareholders	**(975)**	(1,195)	**(11,891)**
Proceeds from stock issuance to minority shareholders	**3**		**37**
Payments for purchase of treasury stock	**(839)**	(2,782)	**(10,231)**
Disposal of treasury stock	**11**		**134**
Other – net	**(13)**		**(159)**
Net cash used in financing activities	**(1,813)**	(3,977)	**(22,110)**
Foreign currency translation adjustments on cash and cash equivalents	**(1,345)**	164	**(16,402)**
Net decrease of cash and cash equivalents	**(1,156)**	(238)	**(14,097)**
Cash and cash equivalents at beginning of year	**14,373**	14,611	**175,280**
Cash and cash equivalents at end of year	**¥13,217**	¥14,373	**$161,183**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2011 and 2010

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 2010 consolidated financial statements to conform to the classifications used in 2011.

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 ¥82 to $1, the approximate rate of exchange at February 28, 2011. 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, 2011 include the accounts of the Company and its 18 significant (18 in 2010) 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.

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.

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 (13 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 (13 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.

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 is not disclosed because there are no securities with dilutive effect upon exercise or conversion into common stock for the year ended February 28, 2011.

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

In December 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

In March 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.

Accounting Changes and Error Corrections

In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies
When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.
(2) Changes in Presentations
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Current:			
Corporate and other bonds	**¥ 406**		**$ 4,951**
Total	**¥ 406**		**$ 4,951**
Non-current:			
Equity securities	**¥1,553**	¥1,573	**$18,939**
Corporate and other bonds	**682**	1,124	**8,317**
Trust fund investment and other	**39**	35	**475**
Total	**¥2,274**	¥2,732	**$27,731**

The costs and aggregate fair values of securities classified as available-for-sale at February 28, 2011 and 2010 were as follows:

	Millions of yen			
2011	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,399**	**¥236**	**¥210**	**¥1,425**
Corporate and other bonds	**1,065**	**23**	**1**	**1,087**
Trust fund investments and other	**29**	**10**		**39**

	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

	Thousand of U.S. dollars (Note 1)			
2011	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$17,061**	**$2,878**	**$2,561**	**$17,378**
Corporate and other bonds	**12,988**	**280**	**12**	**13,256**
Trust fund investments and other	**353**	**122**		**475**

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2010 were as follows. The similar information for 2011 is disclosed in Note 14.

	Carrying Amount
	Millions of yen
	2010
Available-for-sale:	
Equity securities	¥132
Total	¥132

Proceeds from sales of available-for-sale securities for the year ended February 28, 2010 were ¥202 million. 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.

4. SHORT-TERM INVESTMENTS

Short-term investments at February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Deposits over 3-month period	**¥1,578**	¥1,002	**$19,244**
Total	**¥1,578**	¥1,002	**$19,244**

5. INVENTORIES

Inventories at February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Merchandise	**¥ 281**	¥ 279	**$ 3,427**
Finished products	**5,382**	5,605	**65,634**
Work in process	**2,066**	2,057	**25,195**
Raw materials and supplies	**1,793**	1,079	**21,866**
Total	**¥9,522**	¥9,020	**$116,122**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the years ended February 28, 2010 and recognized impairment losses of ¥2,308 million as other expenses.

The loss for the year ended February 28, 2010 was for production facilities used by the Components Department due to the downturn in profitability.

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. No impairment loss was recognized in 2011.

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

Short-term bank loans at February 28, 2011 and 2010 consisted of bank overdrafts. The annual interest rates applicable for the years ended February 28, 2011 and 2010 were 0.39% and 0.42%, respectively.

Long-term debt at February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Lease obligations	**¥64**	¥53	**$780**
Less: current portion	**16**	11	**195**
Long-term debt, less current portion	**¥48**	¥42	**$585**

Annual maturities of long-term debt at February 28, 2011 were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2012	**¥16**	**$195**
2013	**16**	**195**
2014	**16**	**195**
2015	**13**	**158**
2016	**3**	**37**
Total	**¥64**	**$780**

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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Projected benefit obligation	**¥(7,382)**	¥(7,503)	**$(90,024)**
Fair value of plan assets	**6,866**	6,772	**83,732**
Unrecognized actuarial loss	**1,022**	1,388	**12,463**
Unrecognized prior service cost	**(162)**	(185)	**(1,976)**
Net amount recognized	**¥ 344**	¥ 472	**$ 4,195**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥ 390**	¥ 515	**$ 4,756**
Liability for retirement benefits	**(46)**	(43)	**(561)**
Net amount recognized	**¥ 344**	¥ 472	**$ 4,195**

The components of net periodic benefit costs for the years ended February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Service cost	**¥ 348**	¥ 355	**$ 4,244**
Interest cost	**149**	155	**1,817**
Expected return on plan assets	**(169)**	(159)	**(2,061)**
Recognized net actuarial loss	**168**	198	**2,049**
Amortization of prior service cost	**(23)**	(20)	**(281)**
Net periodic benefit costs	**¥ 473**	¥ 529	**$ 5,768**

Assumptions used for the years ended February 28, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate	**2%**	2%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**13 years**	14 years
Amortization period of prior service cost	**13 years**	14 years

9. EQUITY

Japanese companies are 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 are 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, 2011 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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	
	2004 Stock Option	2005 Stock Option
For the year ended February 28, 2010		
Non-vested		
February 28, 2009 – Outstanding		
Granted		
Canceled		
Vested		
February 28, 2010 – Outstanding		

	Shares	
	2004 Stock Option	2005 Stock Option
Vested		
February 28, 2009 – Outstanding	17,000	76,000
Vested		
Exercised		
Canceled		
February 28, 2010 – Outstanding	17,000	76,000
For the year ended February 28, 2011		
Non-vested		
February 28, 2010 – Outstanding		
Granted		
Canceled		
Vested		
February 28, 2011 – Outstanding		
Vested		
February 28, 2010 – Outstanding	17,000	76,000
Vested		
Exercised	**11,000**	
Canceled	**6,000**	
February 28, 2011 – Outstanding		**76,000**
Exercise price	¥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, 2011 and 2010, 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Current:			
Deferred tax assets			
Tax loss carryforwards	**¥ 407**		**$ 4,963**
Accrued bonuses	**225**	¥ 206	**2,744**
Inventories	**191**	217	**2,329**
Allowance for doubtful receivables	**23**	114	**281**
Unrealized profit on inventories	**20**	17	**244**
Other – net	**95**	93	**1,159**
Less valuation allowance	**(408)**	(422)	**(4,976)**
Total	**¥ 553**	¥ 225	**$ 6,744**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 844**	¥ 1,238	**$ 10,293**
Tax-deductible inventory losses	**46**	41	**561**
Other – net	**38**	28	**463**
Total	**¥ 928**	¥ 1,307	**$ 11,317**
Net deferred tax liabilities	**¥ (375)**	¥(1,082)	**$ (4,573)**
Non-Current:			
Deferred tax assets			
Tax loss carry forwards	**¥ 2,505**	¥ 2,250	**$ 30,549**
Impairment loss	**460**	635	**5,610**
Write-down of investment securities	**241**	240	**2,939**
Depreciation	**234**	217	**2,853**
Other – net	**251**	273	**3,061**
Less valuation allowance	**(3,167)**	(2,926)	**(38,622)**
Total	**¥ 524**	¥ 689	**$ 6,390**
Deferred tax liabilities			
Prepaid pension expense	**¥ 155**	¥ 205	**$ 1,890**
Property, plant and equipment	**25**	26	**305**
Other – net	**26**	33	**317**
Total	**¥ 206**	¥ 264	**$ 2,512**
Net deferred tax assets	**¥ 318**	¥ 425	**$ 3,878**

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2011 and February 28, 2010 and the actual effective tax rate reflected in the accompanying consolidated statements of operations was as follows:

	2011	2010
Normal effective statutory tax rate	**39.8%**	39.8%
Effect of foreign tax rate differences	**(73.1)**	(3.8)
Valuation allowance	**61.4**	(42.7)
Unrealized profit on inventories	**36.6**	(7.0)
Undistributed earnings of associated companies	**(34.9)**	(13.2)
Other – net	**(0.1)**	(0.2)
Actual effective tax rate	**29.7%**	(27.1)

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,755 million ($21,402 thousand) and ¥1,950 million for the years ended February 28, 2011 and 2010, respectively.

13. LEASES

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

Lease payments under financial leases were ¥30 million ($366 thousand) and ¥42 million for the years ended February 28, 2011 and 2010, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before February 28, 2009 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Company applied the ASBJ Statement No. 13 effective March 1, 2009 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before February 28, 2009 such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Acquisition cost	**¥112**	¥172	**$1,366**
Accumulated depreciation	**71**	101	**866**
Net leased property	**¥ 41**	¥ 71	**$ 500**

The pro forma depreciation expense computed by the straight-line method was ¥30 million ($366 thousand) and ¥42 million for the years ended February 28, 2011 and 2010, respectively.

Obligations under financial leases at February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Due within one year	**¥22**	¥30	**$268**
Due after one year	**19**	41	**232**
Total	**¥41**	¥71	**$500**

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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Due within one year	**¥ 67**	¥ 80	**$ 817**
Due after one year	**330**	285	**4,024**
Total	**¥397**	¥365	**$4,841**

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective February 28, 2011.

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low risk financial instruments, and uses bank loans to fund its ongoing operations. Derivatives are used mainly to manage foreign exchange risks, not for speculative purposes.

(2) Nature, Extent of Risks Arising from and Risk Management for Financial Instruments

Trade receivables such as trade notes and accounts receivable are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balance of each customer. The Group also periodically checks credit status of key customers.

Marketable securities and investment securities, which are mainly equity instruments, are exposed to market risk. The Group periodically monitors market values of these securities and reports them to the management.

Trade payables such as trade notes and accounts payable are mostly due within one year.

Loans are used to finance operating activities and exposed to risks of interest rate fluctuations, but all of them are short-term borrowings.

The Group uses forward foreign exchange contracts to manage exchange risks arising from receivables and payables denominated in foreign currencies. Derivative transactions entered into by the Group have been made in accordance with internal policies which prescribe the authorization, and the result is reported to management. The Group also limits the counterparties of these derivatives to major international financial institutions to reduce credit risk.

With regard to trade payables and loans, the Group is exposed to liquidity risk. The Group manages this risk by periodic financial planning made by each group company.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on their quoted market price, if available. If a quoted price is not available, other rational valuation techniques are used instead. Also please see Note 15 for details of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen			Thousands of U.S. dollars (Note 1)		
February 28, 2011	Carrying amount	Fair value	Unrealized gain/loss	Contracted amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥13,217	¥13,217		$161,183	$161,183	
Marketable and investment securities	2,550	2,550		31,098	31,098	
Short-term investments	1,578	1,578		19,244	19,244	
Trade receivables	9,289	9,289		113,280	113,280	
Total	¥26,634	¥26,634		$324,805	$324,805	
Trade payables	5,864	5,864		71,513	71,513	
Short-term bank loans	¥ 2,000	¥ 2,000		$ 24,390	$ 24,390	
Total	¥ 7,864	¥ 7,864		$ 95,903	$ 95,903	
Derivatives	¥ 36	¥ 36		$ 439	$ 439	

Cash and cash equivalents, short-term investments

The carrying values of cash and cash equivalents and short-term investments approximate fair value because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 3.

Trade receivables

The carrying values of receivables approximate fair value because of their short maturities. Further, the carrying value of receivables due more than 1 year, arising from some overseas subsidiaries having installment sales, is measured in rational manner, discounted at the Group's assumed corporate discount rate.

Trade payables and short-term bank loans

The carrying values of payables and short-term bank loans approximate fair value because of their short maturities.

Derivatives

The information on fair value of derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined

February 28, 2011	Carrying Amount Millions of yen	Thousands of U.S. dollars (Note 1)
Investments in equity instruments that do not have a quoted market price in an active market	¥129	$1,573
Investments in unconsolidated subsidiaries and associated companies	32	390
Total	¥161	$1,963

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of yen			
February 28, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥13,217			
Marketable and investment securities	399	¥ 638		
Short-term investment	1,578			
Trade receivables	8,661	628		
Total	¥23,855	¥1,266		

	Thousand of U.S. dollars (Note 1)			
February 28, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$161,183			
Marketable and investment securities	4,866	$ 7,780		
Short-term investment	19,244			
Trade receivables	105,623	7,659		
Total	$290,916	$15,439		

15. DERIVATIVES

As noted in Note 14, the Group applied ASBJ Statement No. 10 “Accounting Standard for Financial Instruments” and ASBJ Guidance No. 19 “Guidance on Accounting Standard for Financial Instruments and Related Disclosures”. The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for February 28, 2011.

Derivative transactions to which hedge accounting is not applied at February 28, 2011.

	Millions of yen			
At February 28, 2011	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	¥1,331		¥ 8	¥ 8
Payables:	1,204		28	28
Total				¥36

At February 28, 2011	Thousand of U.S. dollars (Note 1) Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	**$16,232**		**$ 98**	**$ 98**
Payables:	**14,683**		**341**	**341**
Total				**$439**

Derivative transactions to which hedge accounting is not applied at February 28, 2010.

At February 28, 2010	Millions of yen Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	¥1,750	¥ 38	¥ 38
Payables:	951	(28)	(28)
Total			¥ 10

16. NET INCOME (LOSS) PER SHARE

Reconciliation of the differences between basic and diluted net income (loss) per share (EPS) for the years ended February 28, 2011 and 2010 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income (loss)	Weighted average shares	EPS	
For the year ended February 28, 2011				
Basic EPS				
Net income attributable to common shareholders	**¥ 161**	**43,576**	**¥ 3.71**	**$ 0.05**
Effect of Dilutive Securities				
Stock acquisition rights				
Diluted EPS				
Net income for computation	**¥ 161**	**43,576**		
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		

17. 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, 2011 and 2010 was as follows:

(1) Industry Segments

	Millions of yen					
2011	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥7,782**	**¥4,401**	**¥19,287**	**¥4,248**		**¥35,718**
Intersegment sales						
Total sales	**7,782**	**4,401**	**19,287**	**4,248**		**35,718**
Operating expenses	**7,041**	**4,959**	**17,112**	**3,524**	**¥ 1,653**	**34,289**
Operating income (loss)	**¥ 741**	**¥ (558)**	**¥ 2,175**	**¥ 724**	**¥(1,653)**	**¥ 1,429**
Total assets	**¥5,677**	**¥4,233**	**¥24,997**	**¥5,897**	**¥ 8,446**	**¥49,250**
Depreciation and amortization	**205**	**135**	**829**	**469**	**124**	**1,762**
Capital expenditures	**56**	**89**	**465**	**190**	**174**	**974**

	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

	Thousands of U.S. dollars (Note 1)					
2011	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$94,902**	**$53,671**	**$235,207**	**$51,805**		**$435,585**
Intersegment sales						
Total sales	**94,902**	**53,671**	**235,207**	**51,805**		**435,585**
Operating expenses	**85,865**	**60,476**	**208,682**	**42,976**	**$ 20,159**	**418,158**
Operating income (loss)	**$ 9,037**	**$ (6,805)**	**$ 26,525**	**$ 8,829**	**$ (20,159)**	**$ 17,427**
Total assets	**$69,232**	**$51,622**	**$304,841**	**$71,915**	**$103,000**	**$600,610**
Depreciation and amortization	**2,500**	**1,646**	**10,110**	**5,720**	**1,512**	**21,488**
Capital expenditures	**683**	**1,085**	**5,671**	**2,317**	**2,122**	**11,878**

* The segments sell the following products:
Special Products: 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 ¥1,653 million ($20,159 thousand) and ¥1,713 million for the years ended February 28, 2011 and 2010, 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 ¥8,446 million ($103,000 thousand) and ¥5,348 million at February 28, 2011 and 2010, respectively.

(2) Geographical Segments

2011	Japan	Europe	America	Asia	Eliminations or Corporate	Consolidated
	Millions of yen					
Sales:						
Sales to customers	¥11,840	¥9,688	¥8,882	¥ 5,308		¥35,718
Inter-area transfers	18,528	42	24	10,999	¥(29,593)	
Total	30,368	9,730	8,906	16,307	(29,593)	35,718
Operating expenses	29,530	9,009	8,523	14,861	(27,634)	34,289
Operating income	¥ 838	¥ 721	¥ 383	¥ 1,446	¥ (1,959)	¥ 1,429
Assets	¥41,427	¥10,461	¥5,609	¥11,403	¥(19,650)	¥49,250

2010	Japan	Europe	America	Asia	Eliminations or Corporate	Consolidated
	Millions of yen					
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

2011	Japan	Europe	America	Asia	Eliminations or Corporate	Consolidated
	Thousands of U.S. dollars (Note 1)					
Sales:						
Sales to customers	$144,390	$118,146	$108,317	$ 64,732		$435,585
Inter-area transfers	225,951	512	293	134,134	$(360,890)	
Total	370,341	118,658	108,610	198,866	(360,890)	435,585
Operating expenses	360,122	109,865	103,939	181,232	(337,000)	418,158
Operating income	$ 10,219	$ 8,793	$ 4,671	$ 17,634	$ (23,890)	$ 17,427
Assets	$505,207	$127,573	$ 68,403	$139,061	$(239,634)	$600,610

* The segments include the following countries:
Europe: United Kingdom, Germany, France and Switzerland
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 ¥1,653 million ($20,159 thousand) and ¥1,713 million for the years ended February 28, 2011 and 2010, 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 ¥ 8,446 million ($103,000 thousand) and ¥5,348 million at February 28, 2011 and 2010, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Europe	**¥ 9,979**	¥ 7,357	**$121,695**
America	**8,516**	6,054	**103,854**
Asia	**9,589**	10,333	**116,939**
Total	**¥28,084**	¥23,744	**$342,488**

* The segments include the following countries:
Europe: United Kingdom, Germany, Switzerland, France, etc.
America: United States of America, Mexico, Brazil, etc.
Asia: China, Republic of Korea, Taiwan, Thailand, etc.

18. SUBSEQUENT EVENT

1. Appropriation of Retained Earnings

The following appropriation of retained earnings at February 28, 2011 was to be approved at the Company's shareholders' meeting held on May 26, 2011:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥11 ($0.134) per share	**¥474**	**$5,780**

2. Retirement of Treasury Stock

At a meeting on April 11, 2011, the Company's Board of Directors resolved the retirement of treasury stock, as follows:

Type of shares to be retired: Common stock in the Company
Number of shares to be retired: 3,000,000 shares
Retirement date: April 20, 2011

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Star Micronics Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Star Micronics Co., Ltd. and consolidated subsidiaries (the "Company") as of February 28, 2011 and 2010, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 28, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 9, 2011

STOCK INFORMATION

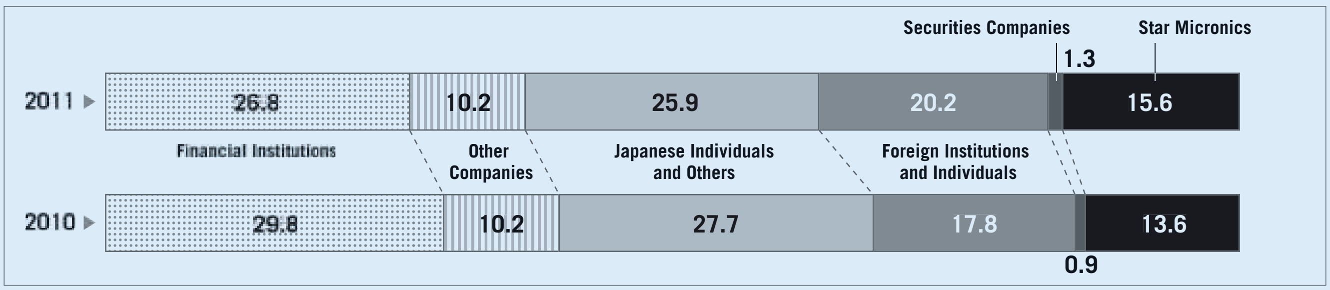
as of February 28, 2011

Common Stock	Authorized	158,000,000	**Stock Listing**	First Section of the Tokyo Stock Exchange
	Issued	51,033,234*	**Transfer Agent**	Tokyo Securities Transfer Agent Co., Ltd.
Paid-in Capital		12,721,939,515 yen		2-6-2 Otemachi, Chiyoda-ku,
Number of Shareholders		10,929		Tokyo 100-0004, Japan

* On April 20, 2011, the Company carried out the disposal of 3,000,000 shares of treasury stock, bringing the total number of outstanding shares as of that date to 48,033,234 shares.

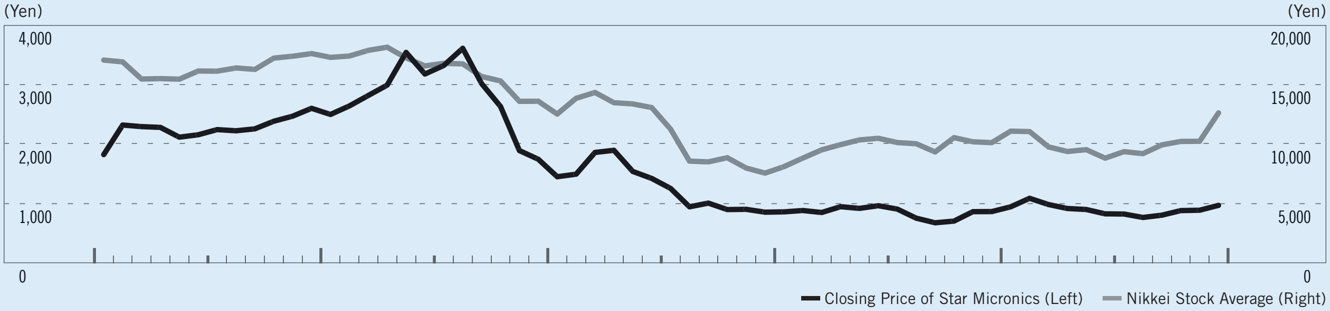
COMPOSITION OF SHAREHOLDERS

(%)



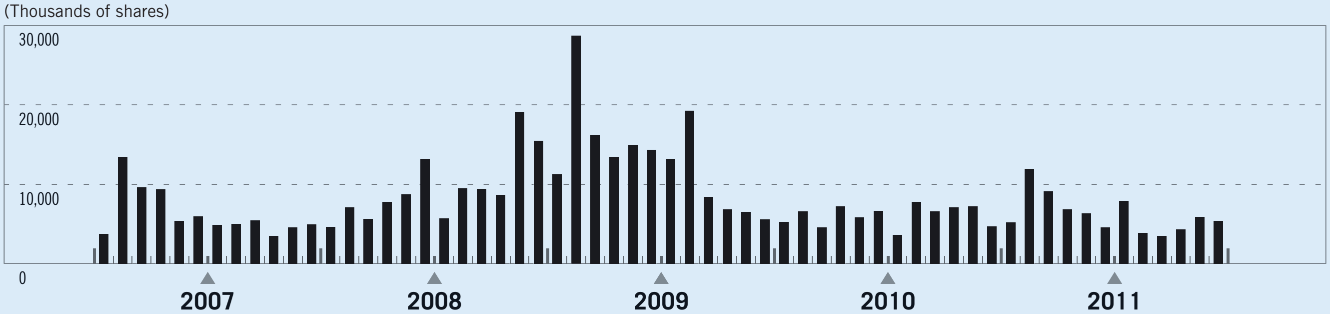
STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)

(Yen)



TRADING VOLUME

(Thousands of shares)



(Fiscal years ended the last day of February)

Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange. Each fiscal year starts in March and ends in February.
2. Stock prices of Star Micronics and the Nikkei Stock Average are based on a simple average of daily closing prices for each day of every month at the Tokyo Stock Exchange.

STOCK PRICE

(Yen)

(Years ended February)

Year	2007	2008	2009	2010	2011
At year-end	2,540	1,701	830	878	929
High	2,710	3,740	2,175	1,020	1,182
Low	1,691	1,506	773	595	702

CORPORATE DATA

as of May 26,2011

DIRECTORS AND AUDITORS

President and CEO	Hajime Sato
Managing Directors	Tomohiko Okitsu
	Chiaki Fushimi
Directors	Satomi Jojima
	Hiroshi Tanaka
	Takashi Kuramae
	Junichi Murakami
	Mamoru Sato
Corporate Auditors	Takao Tsuboi
	Hide Doko
	Kenjiro Ueno

CORPORATE DATA

Corporate Name	Star Micronics Co., Ltd.
Head Office	20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654, Japan Tel. +81-54-263-1111 Fax. +81-54-263-1057
Established	July 6, 1950

GROUP NETWORK

▶ OVERSEAS SUBSIDIARIES

Star Micronics America, Inc.	1150 King Georges Post Road, Edison, NJ 08837, USA	Tel. +1-732-623-5500
Star Micronics Europe Ltd.	Star House, Peregrine Business Park, Gomm Road, High Wycombe, Bucks, HP13 7DL, UK	Tel. +44-1494-471111
Star Precisions Ltd.	18/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong	Tel. +852-3412-0700
Star Micronics Manufacturing Dalian Co., Ltd.	2, Huang Hai Street, Dalian Economic and Technical Development Zone, Dalian, PRC	Tel. +86-411-87611535
Star Micronics AG	Lauetstrasse 3 CH-8112 Otelfingen, Zurich, Switzerland	Tel. +41-43-411-6060
Star Micronics GB Ltd.	Chapel Street, Melbourne, Derbyshire, DE74 8JF, UK	Tel. +44-1332-864455
Star Micronics GmbH	Robert-Grob-Str. 1, D-75305 Neuenbuerg, Germany	Tel. +49-7082-7920-0
Star CNC Machine Tool Corporation	123 Powerhouse Road, Roslyn Heights, NY 11577, USA	Tel. +1-516-484-0500
Star America Holding, Inc.	Suite 100, 30 Old Rudnick Lane, Dover, DE 19901, USA	
Shanghai S&E Precision Co., Ltd.	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC	Tel. +86-21-68130222
Star Machine Tool France SAS	55 Avenue du Mont Blanc, F-74950 Scionzier, France	Tel. +33-450-96-05-97
Shanghai Xingang Machinery Co., Ltd.	229 Fute Road (N), Waigaoqiao Free Trade Zone, Shanghai 200131, PRC	Tel. +86-21-58682100
Star Micronics (Thailand) Co., Ltd.	26/59 1st&3rd Floor, M7 Soi Kingkaew 62/2 Kingkaew Rd, T. Rachathewa A. Bangplee, Samutprakarn 10540, Thailand	Tel. +66-2-175-1923-25
Star Micronics Precision (Thailand) Co., Ltd.	42 Moo 4 Rojana Industrial Park, Tambol Banchang, Amphur U-Thai, Ayutthaya 13210, Thailand	Tel. +66-3-574-6569

▶ JAPANESE SUBSIDIARIES

Micro Sapporo Company	3-705-2 Shinkouminami, Ishikari, Hokkaido 061-3244	Tel. +81-133-64-3663
Micro Fujimi Company	536 Nanatsushinya, Shimizu-ku, Shizuoka 424-0066	Tel. +81-54-347-2165
Star Metal Company	1500-133 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023	Tel. +81-537-35-0026

* Star Micronics Asia Ltd. ceased operations at the end of December 2010, and is therefore omitted from the above.
* S&K Precision Technologies (Thailand) Co., Ltd. changed company name to Star Micronics Precision (Thailand) Co., Ltd. on January 1, 2011.

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VEGETABLE OIL INK

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