Refining Our Core Strengths

Annual Report 2014 (PDF Version)

For the year ended February 28, 2014

STAR MICRONICS CO., LTD.

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." Our heritage from the beginning has also been to develop businesses globally in terms of both sales and production.

Currently, Star Micronics is engaged in three businesses*: special products, mainly point-of-sale (POS) printers; machine tools, mainly CNC automatic lathes; and precision products, mainly wristwatch components and hard disk drive (HDD) components. Moreover, advancing globalization means overseas sales comprise about 80% of all sales, and overseas production comprises roughly 80% of all production.

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

* On January 1, 2014, Star Micronics completed the transfer of the micro audio components business to Foster Electric Company, Limited, and ended this business.

Contents

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.

Medium-term Strategy

We aim to ensure profitability and raise growth opportunities, and steadily make sustained returns to shareholders, by optimizing the allocation of business resources and by restructuring our businesses.

Ensure Profitability

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

Raise Growth Opportunities

- 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

- 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: 4.5% or more

Medium-term Targets (2017/2 targets)

Net Sales	¥53.0 billion
Operating Income	¥7.5 billion
Net Income	¥5.5 billion
Return on Equity (ROE)	10% or more
Earnings per Share (EPS)	¥100 or more
Shareholders Return	Consolidated dividend payout ratio 40% or more Dividend on equity 4.5% or more

Financial Highlights

Financial Highlights

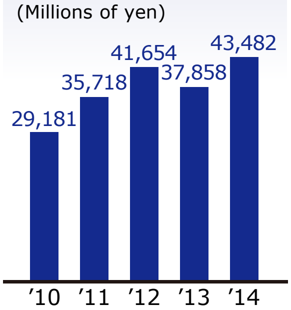
Financial Highlights | Related Information by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2012, 2013 and 2014

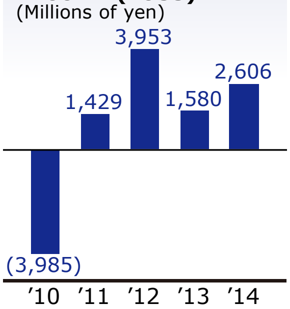
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2012	2013	2014	2014/2013	2014
For the year:					
Net sales	¥ 41,654	¥ 37,858	¥ 43,482	14.9%	$ 426,294
Operating income	3,953	1,580	2,606	64.9%	25,549
Net income	2,427	2,300	1,143	(50.3%)	11,206
Return on sales	5.8%	6.1%	2.6%		
Capital expenditures	2,040	4,373	1,493	(65.9%)	14,637
Depreciation and amortization	1,607	1,743	1,885	8.2%	18,480
At year-end:					
Total assets	51,925	52,564	59,303	12.8%	581,402
Total equity	36,980	40,710	45,698	12.3%	448,020
Equity ratio	70.2%	76.1%	75.5%		
	Yen			Change (%)	U.S. dollars
Per share:					
Basic net income	¥ 56.94	¥ 54.66	¥ 27.17	(50.3%)	$ 0.27
Diluted net income			¥ 27.14		$ 0.27
Cash dividends applicable to the year	26.00	30.00	34.00	13.3%	0.33
Stock information:					
Common shares issued	47,033,234	47,033,234	47,033,234		
Number of shareholders	11,353	10,029	8,562		

Note: The rate of ¥102 to US$1, prevailing on February 28, 2014, has been used for translation into U.S. dollar amounts.

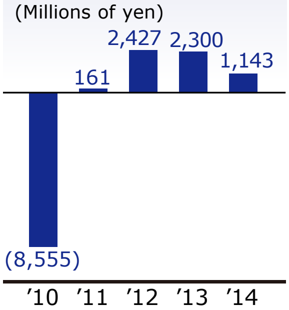
NET SALES
(Millions of yen)



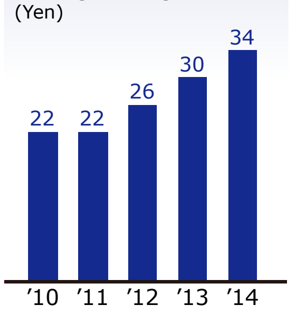
OPERATING INCOME (LOSS)
(Millions of yen)



NET INCOME (LOSS)
(Millions of yen)



CASH DIVIDENDS APPLICABLE TO THE YEAR
(Yen)



Related Information by Geographical Region

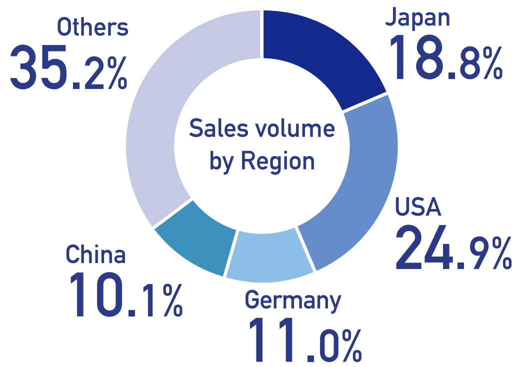
Financial Highlights

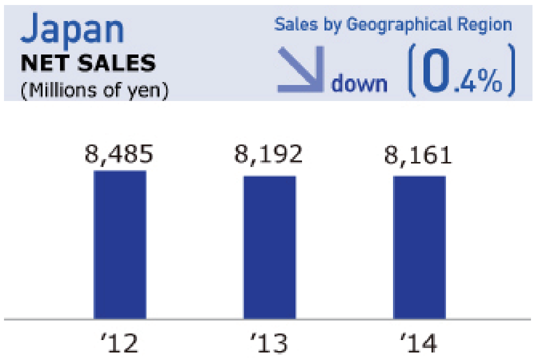
Financial Highlights | Related Information by Geographical Region

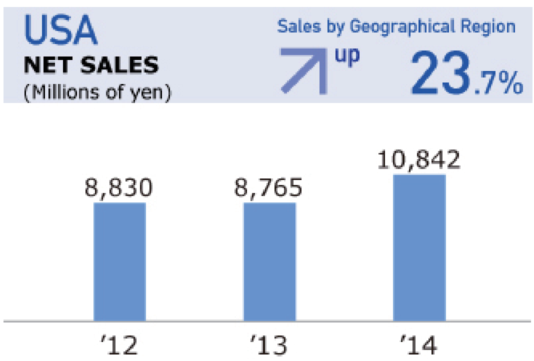
Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2012, 2013 and 2014

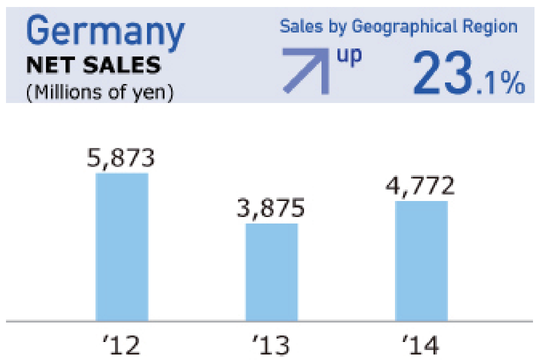
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2012	2013	2014	2014/2013	2014
Japan	¥ 8,485	¥ 8,192	¥ 8,161	(0.4%)	$ 80,010
USA	8,830	8,765	10,842	23.7%	106,294
Germany	5,873	3,875	4,772	23.1%	46,784
China	3,777	4,242	4,390	3.5%	43,039
Others	14,689	12,784	15,317	19.8%	150,167
Total	41,654	37,858	43,482	14.9%	426,294

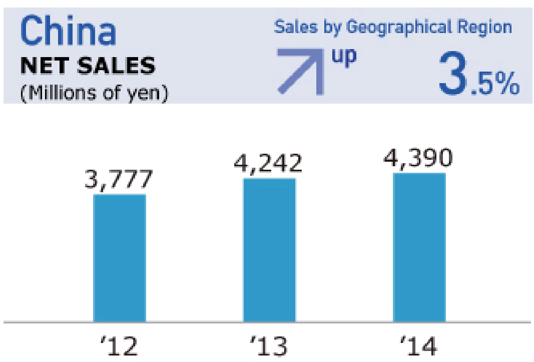
Note: The rate of ¥102 to US$1, prevailing on February 28, 2014, has been used for translation into U.S. dollar amounts.

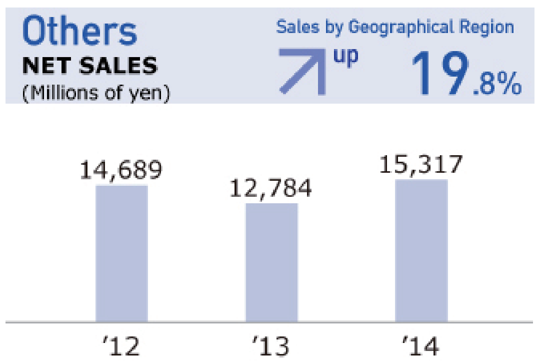












To Our Shareholders

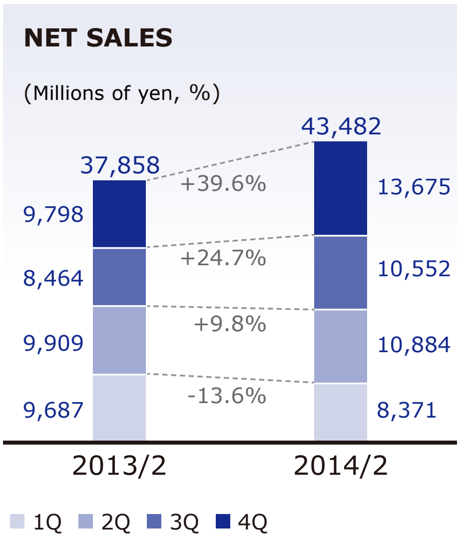
Refining Our Core Strengths

Hajime Sato
President and CEO

In fiscal 2014, the year ended February 28, 2014, the Star Micronics Group underwent another year of significant change between the two halves of the year, with a first half continuing to face a challenging business climate, but recovery of sales in the Machine Tools Segment through the latter half of the year.

Review of Business Performance

Economic conditions tended to improve during fiscal 2014 as a mild recovery continued in the U.S. and growth returned in a previously slumping Europe. Although growth in Asian markets centering on China slowed, Japan showed a gradual recovery as the exchange rate moved toward depreciation of the yen.



Amid this environment, the Star Micronics Group's Machine Tools Segment sales increased due to firm results in the U.S. and East Asian markets, post-summer recovery in main European markets that had lagged in the first half of the year and the impact of exchange rates. Our Special Products Segment also increased sales due to a robust performance in the North American and Japanese markets by the likes of Point of Sale (POS) thermal printers in addition to the effect of currency rates, in spite of slumping demand for dot-matrix printers in European and Asian markets. In the Precision Products Segment, sales decreased due to low demand in the first half of the year for wristwatch components, which had been impacted by wristwatch makers' inventory adjustments, but started to recover from the latter half of the year. In non-wristwatch components, overall sales increased as robust sales of air conditioner- and automobile-related components offset the contraction in sales of hard disk drive (HDD) components.

As a result, the Star Micronics Group reported a 14.9% increase in consolidated net sales to ¥43,482 million in fiscal 2014. Due mainly to increased sales, operating income rose significantly by 64.9% to ¥2,606 million. Meanwhile, in the absence of an insurance income such as the one reported as an extraordinary gain in the previous year, net income decreased significantly by 50.3% to ¥1,143 million, including the posting of an other expenses of ¥650 million, which was a settlement package made in connection with the execution of patent rights.

To compensate our shareholders, Star Micronics has decided to pay a full-year dividend of ¥34 per share.

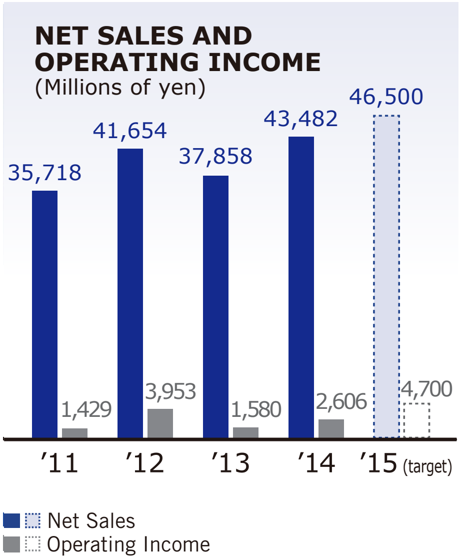
Fiscal 2015 Outlook

In view of all this, Star Micronics as a basic policy will keep emphasizing the Asian market in enhancing business development overseas. This will be done even as the European and North American markets remain important to the Company.

We expect economic conditions during fiscal 2015 to continue to recover in the U.S., Europe, Asia, domestically and globally.

Amid such an environment, I forecast sales will increase in the next period on the back of increased orders in the Machine Tools Segment, mainly centering on the European and Asian markets. Sales in the Special Products Segment will increase mainly in European and North American as well as Chinese markets and upswings of sales can also be forecast in the Precision Products Segment and for wristwatch components.

Consequently, for the year ending February 28, 2015, Star Micronics is projecting ¥46,500 million in net sales, ¥4,700 million in operating income and ¥3,600 million in net income.



To provide you with a reference point, our projections are based on the assumption of the yen's exchange rate averaging ¥100.00 to the U.S. dollar and ¥135.00 to the euro.

Initiatives by Business Segment

Special Products:

In the Special Products Segment, we aim to strengthen software of our POS printers to differentiate and enhance the competitiveness of our products. Our Group's mobile printers combined with original software development kits (SDK) are highly regarded and increasing share in growth markets such as those for settlement systems using smartphones and tablet terminals.

Going forward, we intend to continue focusing on mobile printers as they are expected to continue growing in a variety of ways, as well as move ahead on creating new systems utilizing such tools as cloud computing.

Machine Tools:

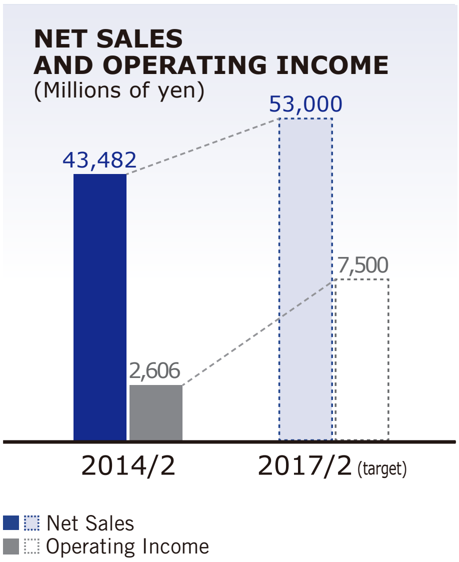
Our foot will remain firmly planted in the mainstay North American and European markets of our Machine Tools Segment as we strive to establish beachheads in the heady emerging markets of Asia. We are strategically introducing products in accordance with market requirements, enhancing our complex machine lineup, and we will also work on enhancing the product lineup of our fixed headstock automatic lathes. We aim to cultivate the market for this new type of lathe going forward, because it is more than twice the size of our existing markets for sliding headstock automatic lathes. Apart from this, we will start up production at our new factory in Thailand to establish a manufacturing framework consisting of three production bases in Japan, China and Thailand for the Machine Tools business. These three production bases will be utilized to their fullest in building an efficient manufacturing and distribution framework going forward.

Precision Products:

Few competitors operate on a scale comparable to the Star Micronics Group in machine processing precision products, or indeed are capable of integrating the production of these products through the plating and heat treatment stage, for that matter. These advantages will serve us well in responding to a broad range of market needs, and steadily raise our performance in this business as a result. Looking ahead, I want to expand business in wristwatch components within Japan and non-wristwatch components overseas. Our medium-term vision for this segment is for our operating bases in Dalian and Shanghai (China), and Ayutthaya (Thailand) to each achieve ¥1,000 million in sales. More to the point, this means that our aim is to increase the segment's annual sales overseas by 1.5 times to ¥3,000 million total. Including Japan, we aim to achieve sales of ¥5,000 million.

Medium-Term Issues

New business development and future growth are major issues currently facing the Star Micronics Group.



Looking back at the five years since I was appointed president in May 2009 makes it feel as though it was a period of tumultuous change and a challenging business environment including such events as the global economic slowdown sparked by the U.S. financial crisis, the Great East Japan Earthquake and the debt and financial problems in Europe. Amid that environment, we managed with the intent of building an even stronger corporate framework. In the fiscal year ended February 28, 2011, we decided not to pursue sales unduly as the global economy faltered badly and instead moved forward on contracting the balance sheet by thoroughly reducing inventories and retrieving trade notes and accounts receivable to create a structure in which it would be easier to generate profits. Since then, we have not aimed to merely expand sales, but implemented initiatives aimed at enhancing our business strengths such as developed new products and built the factory in Thailand. In the fiscal year under review, we transferred the Micro Audio Components Segment, which had long faced harsh price competition that stifled earnings, and ended this business. I believe these initiatives improved corporate strength.

However, in the current three businesses, the business portfolio balance and future growth remain issues. In addition to keeping business fluctuations to a minimum and seeking to develop long-term business going forward, I feel it is necessary to make headway in new territories by such means as M&A. The Star Micronics Group's standing management policy is not to merely pursue expansion of business size, but to promote growth strategies with an emphasis on profitability in the global niche markets we serve and we will continue using this as the basic policy of building new growth over the upcoming years it is forecast to take for global economic recovery.

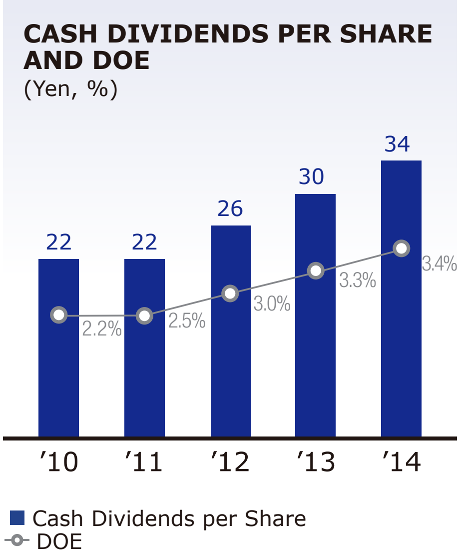
Enhancing Corporate Value

Corporate Governance

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

One aspect of reinforcing governance and supporting a management structure with a decision-making process based on a diversity of values will be the appointment of an outside director at the General Meeting of Shareholders on May 22, 2014.

Capital Policy



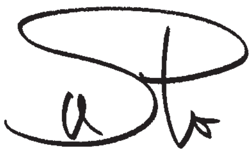
We aim to be an attractive company in the eyes of our shareholders and other investors, particularly for those who are seeking long-term shareholdings.

We base our decisions regarding the distribution of profits on a target consolidated dividend payout ratio of at least 40% while taking into account our consolidated dividend on equity (DOE). Consequently, we decided to raise our annual dividend by ¥4 to ¥34 per share in the year ended February 28, 2014. We emphasize the return of profits to shareholders and are working to achieve a stable and consistent increase in dividends, taking business results into consideration. Our policy is to aim for a DOE in excess of 4.5%.

We have treasury stock of roughly 5 million shares and plan to continue examining M&A transactions involving the exchange of equity as a method for utilizing this. In the event of not finding a suitable proposition, we may examine retiring this stock, taking business performance into consideration. We plan to maintain a close look at circumstances and examine whether to acquire further treasury stock.

While the global economic environment is gradually moving toward recovery and the business environment is turning upward, I forecast that conditions will not be easy. Under these circumstances we will strive sincerely to become an attractive company. I ask for the continued support of shareholders and other investors.

May 2014



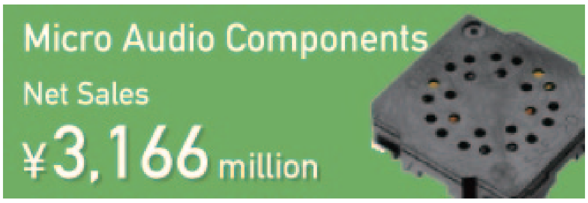
Hajime Sato
President and CEO

At a Glance by Segment

Sales by Segment

Point-of-sale (POS) printers used to issue receipts and for other purposes at places such as department stores, supermarkets and restaurants are the main products in the Special Products Segment. In recent years, the segment has built its business by strengthening lines of products that steadfastly reflect the needs of customers and society, including developing mobile printers designed for tablets, smartphones, and other devices.

▸ Special Products



After fulfilling its responsibility to supply customers with products and preparing to terminate the business, this business segment was closed following the transfer of business operations to Foster Electric Company, Limited, which was completed on January 1, 2014.

In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes enjoy high market shares globally. Key products include 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; the *SR* series, which features outstanding complex machining and productivity; and the *SB* series that offers superior cost performance.

▸ Machine Tools

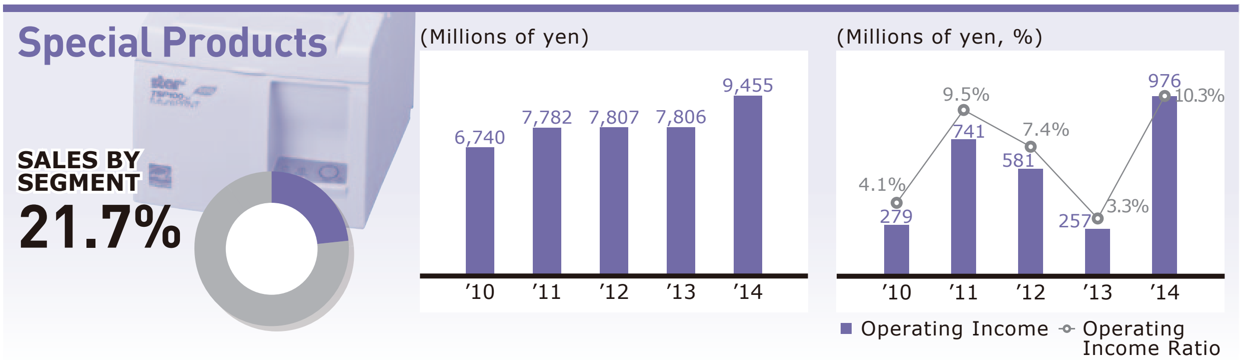
The strength of this segment is that we have integrated the production of precision products from the machining stage to the plating stage. In the wristwatch components machining field, we hold a share as one of Japan's leading machining processors of precision components. Currently in the non-wristwatch components field (components related to cars, components for hard disk drives (HDDs), etc.), business is expanding.

▸ Precision Products

Special Products

NET SALES

OPERATING INCOME &
OPERATING INCOME RATIO

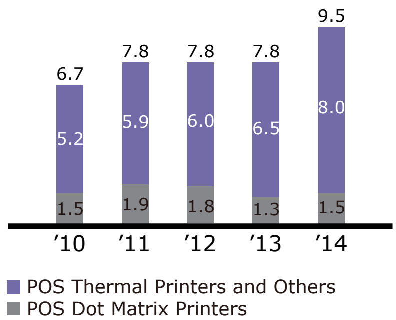


Sales and operating income both increased. Thermal printers performed firmly centered on North America and Japan, and new orders were captured in Europe, as well as the yen's depreciation. Going forward, the segment will work to increase its market share in ASEAN, South America and other growth projected regions.

Business Environment and Results in Fiscal 2014

To strengthen its competitiveness, the segment embraces a two-pronged approach of providing the leading industrial markets with high-value-added products on the cutting edge of IT, while supplying the emerging markets with products that are primarily cost competitive. To this end, the segment has strengthened its technological capabilities centered on software engineering, honed its pricing competitiveness and built an optimal global sales and marketing organization to boost its market share even further.

SALES IN THE SPECIAL PRODUCTS SEGMENT
(Billions of yen)



In fiscal 2014, thermal printer sales increased. There was firm demand for thermal printers in the North American and Japanese markets, and new orders were captured in the European market, and the yen's depreciation boosted sales. Demand for dot-matrix printers remained sluggish in European and Asian markets, but sales increased in part due to the impact of foreign exchange rates.

By region, market environments in the Americas were comparatively stable. POS printer sales increased due to firm demand in North America as well as in the South American market. In the European market, sales of our POS printers increased partly due to the capture of new orders. The Chinese market slumped and sales decreased.

As a result of the above factors, segment sales grew 21.1% compared to the previous year to ¥9,455 million (US$92,696 thousand). Operating income soared 279.8% to ¥976 million (US$9,569 thousand).

Sales Volume of POS Printers by Region

(Thousands of units)

	2013	2014	Change
Europe	128	127	(0.8%)
The Americas	229	232	1.3%
Asia	116	82	(29.3%)
Japan and elsewhere	46	41	(10.9%)
Total	520	482	(7.3%)

Outlook for Fiscal 2015

The segment will continue to supply a product line of POS printers tailored to market needs and build a sales and marketing organization capable of responding to customers with flexibility and attention to detail. We will work to expand sales in the strategic regions of South America centered on Brazil, which is scheduled to host the Olympics following on from the FIFA World Cup, and the ASEAN region.

As regards product strategy, we will strengthen software aspects, including by focusing on strengthening our mobile printers, and by creating new systems utilizing cloud computing.

TSP100ECO POS Printer

For business results, we are projecting segment sales of ¥10,240 million, up 8.3% from the previous fiscal year, and operating income of ¥1,340 million, an increase of 37.3% year on year.

Feature Column

Strengthening Our Product Lineup by Reflecting the Needs of Customers

Star Micronics' booth at Retailtech JAPAN2013

Mobile printer SM-S210i

AsuraCPRNT

Amid a rapid increase in demand for mobile POS printers and mobile payments, we have introduced to the market a variety of mobile printers that are compatible with Bluetooth, Android and iOS. Moreover, the segment also developed AsuraCPRNT, a series of multifunction terminals that can be applied to a wide variety of uses in retail markets in Japan and overseas, and in the hospitality market. These products were praised by many visitors to the Retailtech JAPAN2013 event at which they were exhibited.

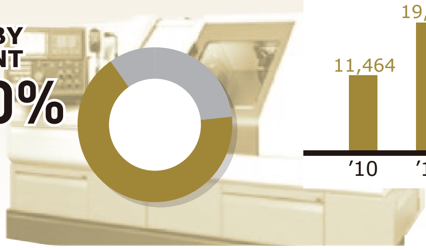
Going forward, we will work to further expand sales by steadily developing printers that are compatible with the various operating systems for smartphones and tablets.

Machine Tools

Machine Tools

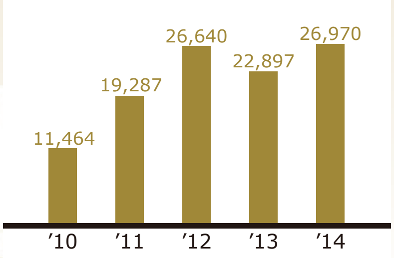
SALES BY SEGMENT

62.0%



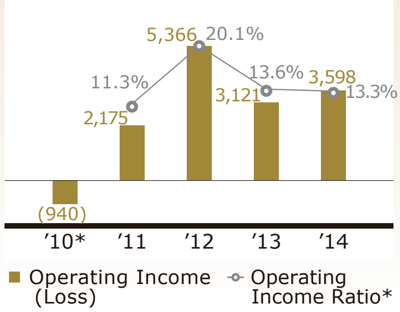
NET SALES

(Millions of yen)



OPERATING INCOME (LOSS) & OPERATING INCOME RATIO

(Millions of yen, %)



Segment sales and operating income both increased, partly due to a recovery in Europe and Japan in the second half of the fiscal year under review, in addition to a firm North American market. Looking ahead, we will take steps to enhance product lineups, such as developing a new series of fixed headstock automatic lathes.

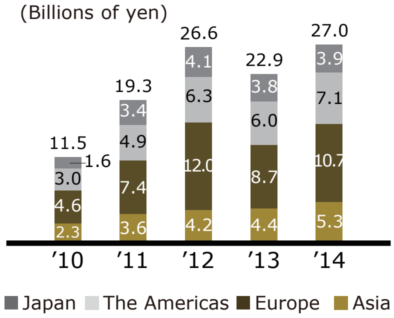
Business Environment and Results in Fiscal 2014

In fiscal 2014, sales in the Machine Tools Segment increased in all markets. Demand remained strong in the U.S. and East Asian markets, while it bottomed out in the European market in the second half of the fiscal year, and also showed signs of recovering in Japan.

By region, the mainstay European market recovered from the second half of the fiscal year. In the Japanese market, sales increased mainly due to a recovery by car makers in the second half of the fiscal year. Sales in the U.S. market also rose, partly as a result of firm medical-related sectors, and the impact of exchange rates. Sales in the Asian market also rose atop strong demand from the mobile device-related and medical equipment sectors in East Asia.

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



As a result, both sales and operating income increased. Sales volume increased 2.6% to 1,884 units. By value, sales increased 17.8% to ¥26,970 million (US$264,412 thousand). Operating income rose by 15.3% to ¥3,598 million (US$35,274 thousand).

The Group exhibited a new model of its bestselling SB series of CNC Swiss-type multi-axis lathes at the China International Machine Tool Show (CIMT 2013) held in China in April 2013. Furthermore, the Group unveiled the Swiss-Type Automatic Lathe SV-38R complex machine at venues including the EMO Hannover 2013 international trade show held in Germany in September 2013 and MECHATRONICS TECHNOLOGY JAPAN 2013, held in Nagoya, Japan in October.

The Group also completed construction of a building for its new plant in Thailand, and began conducting assembly at the new factory in April 2013.

Outlook for Fiscal 2015

In fiscal 2015, we will remain firmly focused on the mainstay North American and European markets of our Machine Tools Segment as we strive to establish beachheads in the emerging markets of Asia, where growth continues.

CNC Swiss-Type Automatic Lathe ST-38

To this end, we will step up the development of new products with the aim of building up a track record in Asia and emerging markets. Having brought the new factory in Thailand on line, we will work to establish an integrated manufacturing framework that includes component machining. We will establish the optimum production and logistics structure for the segment around the three manufacturing bases in Japan, China and Thailand. In order to achieve growth and business expansion, we will establish a supply chain. To expand sales in the futures, we will launch a series of fixed-head CNC Automatic Lathes for processing precision components with large diameters.

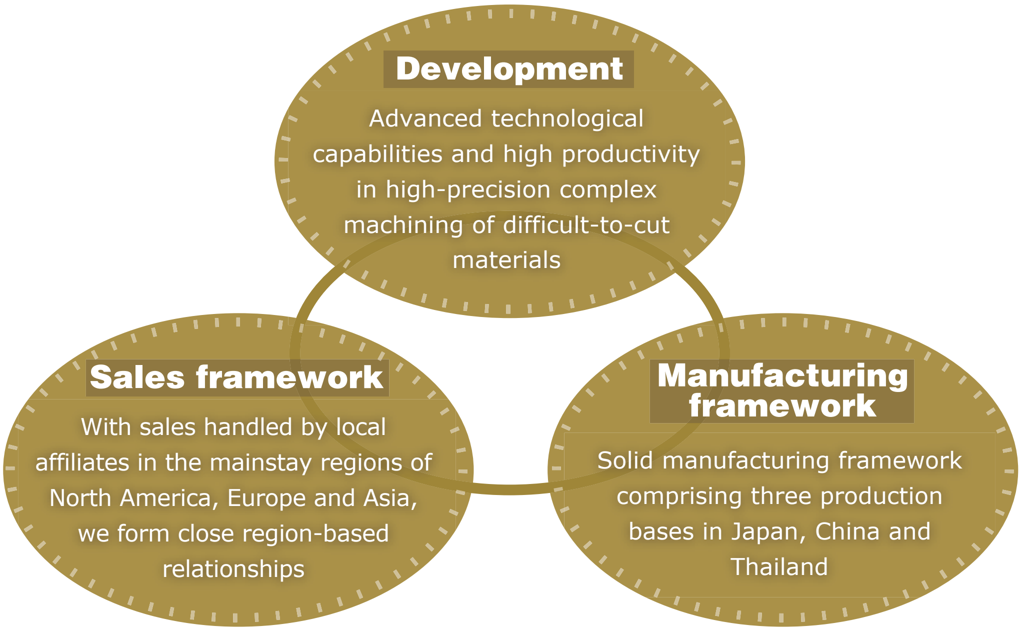
In consideration of anticipated growth in sales to all the markets of the U.S., Europe, Asia and Japan, we are projecting higher sales and earnings for the segment in the year ending February 2015. Sales are projected to increase 18.7% to ¥32,000 million and operating income is projected to increase 40.6% to ¥5,060 million.

Sales Volume of Machine tools by Region

(Units)

	2013	2014	Change
Japan	353	351	(0.6%)
Asia	637	699	9.7%
Europe	519	526	1.3%
The Americas	328	308	(6.1%)
Total	1,837	1,884	2.6%

Feature Column



Issues and Initiatives

Development

In product development, an issue is how to strengthen aspects of marketing, such as increasing our understanding of customer needs. We are addressing this by improving our acquisition of market information by posting some of our workforce overseas and holding more meetings with overseas sales subsidiaries and sales agents.

Manufacturing framework

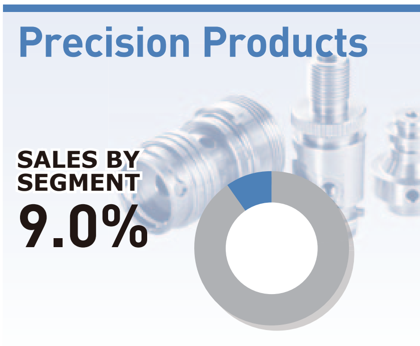
At an early stage, we will establish a manufacturing framework that includes the Thai factory, which can do work operations up to the machining of components. We aim to have in place efficient production and distribution systems based on three production bases in Japan, China and Thailand.

Sales framework

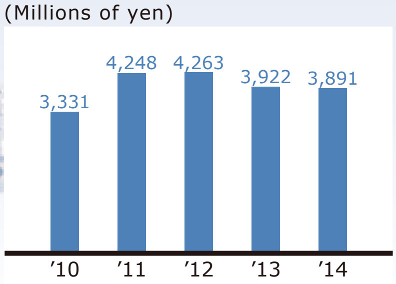
One issue facing us is how to strengthen our sales bases in the emerging markets, especially Asia. In response, we are strengthening our sales bases in China and Southeast Asia, thereby improving our presale services, such as providing technological leadership and developing prototypes of machined components, in addition to after-sales services. Also, we are conducting personnel training of sales agents in order to expand sales.

* No operating income ratio was calculated due to operating losses reported.

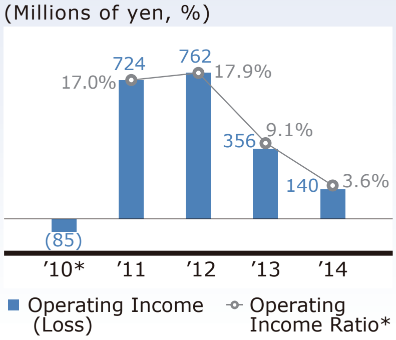
Precision Products



NET SALES



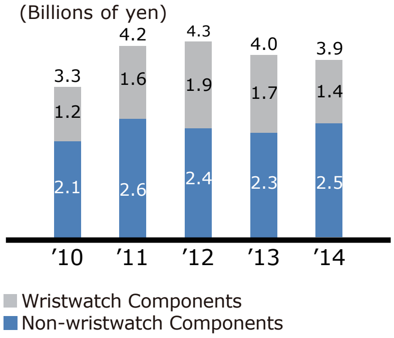
OPERATING INCOME (LOSS) &
OPERATING INCOME RATIO



In the Precision Products Segment, sales of non-wristwatch components increased, but sales of wristwatch components declined due to a drop in the first half of the year. We are bolstering the segment's manufacturing capacity at the three overseas bases, with the aim of expanding sales.

Business Environment and Results in Fiscal 2014

PRECISION PRODUCTS SEGMENT SALES



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) such as automobile-related components and components for hard disk drives (HDDs).

Sales of wristwatch components recovered in the second half of the year because wristwatch makers implemented inventory adjustments, but sales declined 17.5% year on year to ¥1,363 million (US$13,363 thousand).

In contrast, non-wristwatch components saw sales increase due to strong sales of automobile-related components in China in addition to a significant rise in sales of air conditioning-related components for the Chinese market. As a result, non-wristwatch components sales increased 11.4% year on year to ¥2,528 million (US$24,784 thousand), and accounted for 65.0% of total segment sales.

Consequently, total segment sales decreased 0.8% to ¥3,891 million (US$38,147 thousand). As a result of the sales decrease and other factors, the Precision Products Segment posted operating income of ¥140 million (US$1,373 thousand), representing a sizeable decline.

Outlook for Fiscal 2015

Sales of wristwatch components are expected to increase mainly because of the recovery in demand in the market. Sales in the non-wristwatch components sector are expected to expand as we strengthen our production capabilities at our three bases in Dalian and Shanghai in China, and Ayutthaya in Thailand.

For the year ending February 28, 2015, Star Micronics is projecting net sales for the segment of ¥4,260 million, up 9.5% year on year, and a surge of 257.1% in operating income to ¥500 million.

Wrist watch Components

* No operating income ratio was calculated due to operating losses reported.

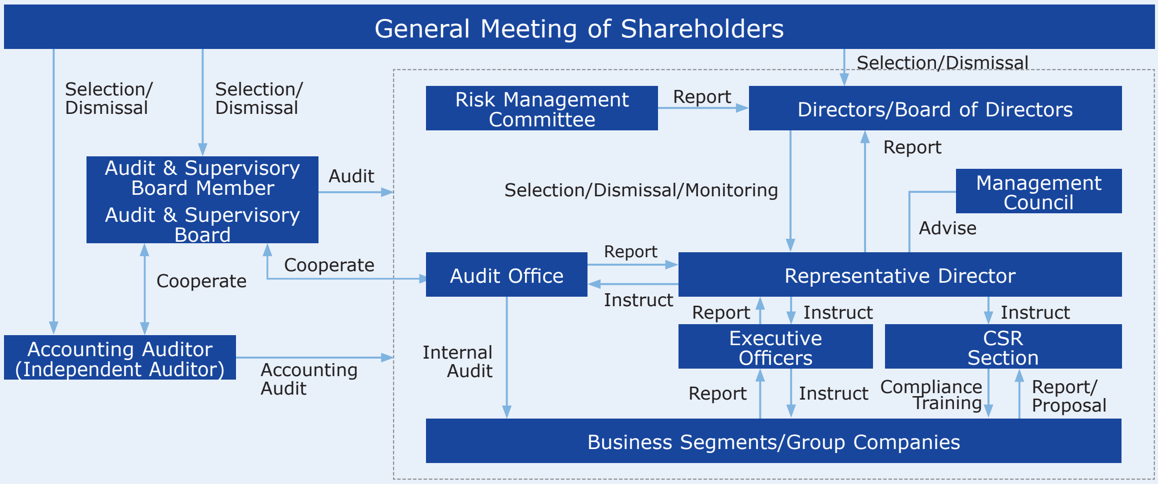
Corporate Governance

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company. To this end, we strive for management that is both appropriate and efficient at sustainably raising corporate value, while distributing an appropriate amount of the resulting profits to our shareholders and other stakeholders.

Star Micronics uses the Audit & Supervisory Board member system. Under this system, a Board of Directors comprised of six directors (including one outside director) rigorously discusses business issues in order to making appropriate and efficient management decisions and to supervises the directors' execution of their duties. To maintain a management organization that is capable of responding readily to changes in the business environment, the Company sets a 1-year renewable term of office for directors. Furthermore, an executive officer system was introduced to Star Micronics to speed up and raise the efficiency of business execution even further, and ensure that management as an organization is flexible and capable of prompt, rational decisions for executing business.

Moreover, to establish a management system with a decision-making process based on judgment incorporating diverse values, one outside director is appointed. Furthermore, with a view to enhancing the management oversight function, all three members of the Audit & Supervisory Board at Star Micronics, including the standing auditor, are outside appointees. These Audit & Supervisory Board members fulfill their duties in accordance with an auditing standard the Company set forth for the Audit & Supervisory Board.

STAR MICRONICS' CORPORATE GOVERNANCE SYSTEM



Compensation of Directors and Audit & Supervisory Board Members

Members of the Board of Directors at Star Micronics are compensated in accordance with the Company's earnings performance. Their package consists of a basic compensation that is paid monthly, a yearly bonus that varies depending on how the Group performs on a consolidated basis and stock options provided as a medium- to long-term incentive bonus. In view of the tasks that they are asked to perform, Audit & Supervisory Board members receive only the basic compensation that is paid monthly.

Basic compensation for directors is set within a range no higher than ¥130 million a year. Star Micronics decides how much of this amount each director receives based on their rank within the Board and the Company's business performance.

Basic compensation for Audit & Supervisory Board members is set within a range no higher than ¥22 million a year. Star Micronics holds discussions with each Audit & Supervisory Board member in deciding how much of this amount each will be paid.

The bonus Star Micronics pays directors is set within a range of no higher than ¥100 million a year. The bonus is allotted to the Board of Directors in a lump sum, which is calculated by multiplying the Company's consolidated net income by a payout ratio that the Company decides each year. A system that assigns points in accordance with rank within the Board determines the amount each director receives of this bonus allotment. Furthermore, at a meeting of the Board of Directors held on May 22, 2014, the Company resolved to pay directors' bonuses as earnings-linked compensation in accordance with Article 34-1, Item 3 of the Corporation Tax Act of Japan.

Breakdown of Compensation of Directors and Audit & Supervisory Board Members

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)			Headcount of those eligible
		Basic compensation	Stock options	Bonus	
Directors (excluding outside director)	124	76	14	34	6
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	-	-	-	-	-
Outside director and Audit & Supervisory Board members	16	16	-	-	3

Notes:

1. The figures for "Stock options" and "Bonus" are the monetary amounts recorded as expenses in the fiscal year under review.
2. The amounts disclosed above exclude ¥68 million (including bonuses) paid out as employee salaries to four directors of the Board who were concurrently serving in employee positions at Star Micronics.
3. Star Micronics is scheduled to pay ¥72 million in total to three directors of the Board upon their retirement. These payments are for severance of a retirement benefit allowance for directors that was discontinued pursuant to a resolution of the Ordinary General Shareholders' Meeting for the 82nd Period held on May 24, 2007.

Internal Control System

Star Micronics strives to maintain an internal control system that will enable proper and efficient management to drive a continuous increase in corporate value.

To strengthen internal control, a Star Micronics Global Charter of Corporate Conduct was issued in March 2005, setting out the Group's basic policies on compliance. Since then, a Star Micronics Code of Conduct was drawn up for employees to follow, and we have been working to establish rules and organizational structures to ensure compliance at every level of our activities. In addition, a department dedicated to promoting corporate social responsibility (CSR) spearheads our compliance activities. This department plays a central role in providing reminders and education on compliance to the Group's directors, executives and employees, and is charged with holding periodic committee meetings and monitoring the status in regard to the Group's adherence with all relevant laws and regulations.

Star Micronics also has an appropriate internal control and whistleblower system for ensuring the reliability of its financial reporting, as stipulated in the Financial Instruments and Exchange Law of Japan.

Risk Management

Star Micronics approaches the management of material risks such as legal issues, natural disasters, environmental considerations and export management in an organized and systematic manner. Departments and individuals are assigned as needed to manage a specific risk, and take responsibility for establishing rules and manuals, etc., for managing the risks. They also implement programs to alert, educate and prepare the Group's directors, executives and employees against the risks. There is also a committee which meets periodically to monitor and manage risks for the Company as a whole.

STAR MICRONICS' RISK MANAGEMENT SYSTEM

Consolidated Eleven-Year Summary

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

	2014	2013	2012	2011
For the year:				
Net sales	**¥43,482**	¥37,858	¥41,654	¥35,718
Cost of sales	**28,047**	24,683	25,753	23,265
Selling, general and administrative expenses	**12,829**	11,595	11,948	11,024
Operating income (loss)	**2,606**	1,580	3,953	1,429
Other income (expenses) – net	**40**	2,140	(724)	(1,069)
Income (loss) before income taxes and minority interests	**2,646**	3,720	3,229	360
Income taxes	**1,400**	1,330	717	107
Minority interests in net income	**103**	90	85	92
Net income (loss)	**1,143**	2,300	2,427	161
Net cash provided by operating activities	**2,597**	483	4,466	3,520
Net cash used in investing activities	**(2,455)**	(1,908)	(393)	(1,518)
Free cash flows	**142**	(1,425)	4,073	2,002
Net cash used in financing activities	**(1,394)**	(1,202)	(2,092)	(1,813)
Per share:				
Basic net income (loss)	**¥ 27.17**	¥ 54.66	¥ 56.94	¥ 3.71
Diluted net income	**27.14**			
Cash dividends applicable to the year	**34.00**	30.00	26.00	22.00
At year-end:				
Current assets	**¥41,233**	¥35,827	¥38,302	¥34,836
Net property, plant and equipment	**14,327**	13,476	10,289	10,549
Total assets	**59,303**	52,564	51,925	49,250
Long-term liabilities	**524**	303	407	423
Total equity	**45,698**	40,710	36,980	37,096
Stock exchange price per share of common stock:				
Highest	**¥1,422**	¥988	¥958	¥1,182
Lowest	**857**	647	657	702
Selected financial indicators:				
Equity ratio (%)	**75.5**	76.1	70.2	73.9
Return on equity (%)	**2.7**	6.0	6.7	0.4
Dividend payout ratio (%)	**125.1**	54.9	45.7	593.0
Dividend on equity (%)	**3.4**	3.3	3.0	2.5

Millions of yen (Except for per share data)

2010	2009	2008	2007	2006	2005	2004
¥29,181	¥56,953	¥73,884	¥62,670	¥54,788	¥49,690	¥43,332
22,326	33,535	42,207	37,004	32,875	30,742	28,161
10,840	14,873	17,025	15,222	13,805	12,605	11,621
(3,985)	8,545	14,652	10,444	8,108	6,343	3,550
(2,665)	(984)	(271)	410	(68)	(688)	(286)
(6,650)	7,561	14,381	10,854	8,040	5,655	3,264
1,800	3,147	6,190	3,719	2,799	1,881	828
105	76	111	122	89	(1)	10
(8,555)	4,338	8,080	7,013	5,152	3,775	2,426
4,769	6,152	10,666	10,711	4,594	6,891	8,024
(1,194)	(1,314)	(8,072)	(3,169)	(3,619)	(2,016)	(1,582)
3,575	4,838	2,594	7,542	975	4,875	6,442
(3,977)	(9,077)	(2,152)	(1,331)	(866)	(2,149)	(5,265)
¥(187.95)	¥ 85.66	¥150.74	¥131.09	¥ 95.60	¥ 70.13	¥ 44.12
	85.63	150.47	130.73	95.38	70.09	
22.00	45.00	56.00	32.00	21.00	15.00	11.00
¥34,346	¥44,762	¥63,152	¥53,620	¥44,615	¥40,170	¥36,355
11,678	15,169	17,728	16,355	16,210	14,698	15,604
50,681	64,205	86,375	76,195	66,826	60,013	57,898
592	459	696	920	793	349	1,277
41,261	52,986	66,602	61,396	54,295	47,754	44,613

Yen

¥1,020	¥2,175	¥3,740	¥2,710	¥2,090	¥1,030	¥830
595	773	1,506	1,691	941	704	418
80.1	81.5	76.2	79.9	81.2	79.6	77.1
	7.3	12.8	12.2	10.1	8.2	5.4
	52.5	37.2	24.4	22.0	21.4	24.9
2.2	3.8	4.7	3.0	2.2	1.7	1.3

Management's Discussion and Analysis

Overview

(Years ended February 28, 2014 and 2013)

Business Environment

In fiscal 2014, the year ended February 28, 2014, the U.S. economy remained on a modest recovery path. European economies showed trends of economic recovery, including a return to a positive growth rate. In Asian economies, the pace of growth slowed, particularly in China. In Japan, there were signs that the economy was gradually recovering, supported by the yen's depreciation.

Net Sales

(Millions of yen)

2013	**2014**	Change (%)
¥37,858	**¥43,482**	14.9

Net sales increased primarily due to a recovery in orders in Europe from the second half of the fiscal year in the Machine Tools Segment, firm results in the Special Products Segment, and the yen's depreciation.

Operating Income

(Millions of yen)

2013	**2014**	Change (%)
¥1,580	**¥2,606**	64.9

Operating income significantly increased, mainly due to the increased sales and the yen's depreciation.

Net Income

(Millions of yen)

2013	**2014**	Change (%)
¥2,300	**¥1,143**	(50.3)

Due to recording a patent right settlement package, net income significantly decreased in relation to the previous fiscal year, when a gain on insurance income was posted.

Cash Dividends per Share

(Yen)

2013	**2014**	Change (yen)
¥30	**¥34**	¥4

The cash dividends in the year under review increased ¥4 from the previous year to ¥34 per share.

Total Assets

(Millions of yen)

2013	**2014**	Change (%)
¥52,564	**¥59,303**	12.8

Total assets rose from the end of the previous fiscal year. This was mainly due to an increase in trade notes and accounts receivable, and an improvement in foreign currency transaction adjustments.

Free Cash Flows

(Millions of yen)

2013	**2014**	Change (%)
¥(1,425)	**¥142**	–

The fiscal year under review saw positive free cash flows despite increases in income taxes—paid, and in trade receivables.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

2013	**2014**	Change (%)
¥4,373	**¥1,493**	(65.9)

Capital expenditures decreased year on year, mainly due to the construction of a new factory in Thailand in the Machine Tools business in the previous year.

Sales by Region

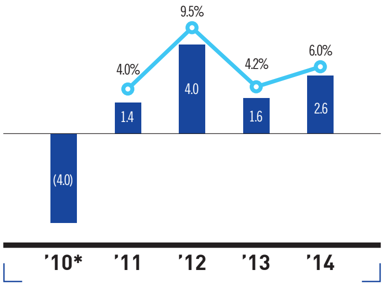
(Millions of yen)

	2013	**2014**	Change (%)
Japan	¥ 8,192	**¥ 8,161**	(0.4)
USA	8,765	**10,842**	23.7
Germany	3,875	**4,772**	23.1
China	4,242	**4,390**	3.5
Others	12,784	**15,317**	19.8

Income Analysis

▶ **Sales and operating income both increased, primarily due to the recovery in demand for machine tools and the yen's depreciation.**

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



* The operating income ratio was not calculated for fiscal 2010 because an operating loss was incurred.

For fiscal 2014, the fiscal year under review, Star Micronics reported consolidated sales of ¥43,482 million (US$426,294 thousand), up 14.9%, or ¥5,624 million, year on year. This outcome reflected the impact of a recovery of demand in Europe from the second half of the fiscal year in the Machine Tools Segment, firm results in the Special Products Segment, and the yen's depreciation. The cost of sales increased ¥3,364 million, or 13.6%, to ¥28,047 million (US$274,970 thousand). As a result of the above, gross profit increased ¥2,260 million, or 17.2%, to ¥15,435 million (US$151,324 thousand). The gross profit margin increased 0.7 percentage points to 35.5%.

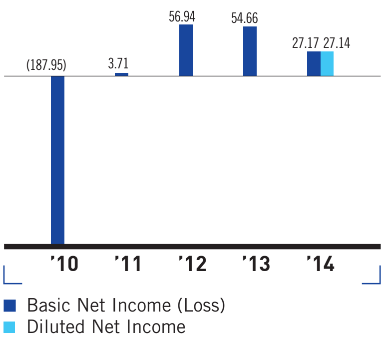
Selling, general and administrative expenses (SG&A) expenses increased ¥1,234 million year on year, or 10.6%, to ¥12,829 million (US$125,775 thousand). This increase was due mainly to the impact of exchange rates.

As a result of the above, the Company saw operating income increase a sharp 64.9%, or ¥1,026 million, year on year, to ¥2,606 million (US$25,549 thousand). The operating income ratio increased 1.8 points to 6.0%.

▶ **Net income significantly decreased year on year due to the recording of a patent right settlement package and the absence of the gain on insurance income that was posted in the previous fiscal year.**

NET INCOME (LOSS) PER SHARE

(Yen)



Other income—net was ¥40 million (US$392 thousand) compared to other income—net of ¥2,140 million in the previous fiscal year. In the previous year, non-operating gains recorded were on insurance income and on sales of investment securities, but in the fiscal year under review there was an absence of these gains and a loss of ¥650 million (US$6,372 thousand) was recorded for a patent right settlement package.

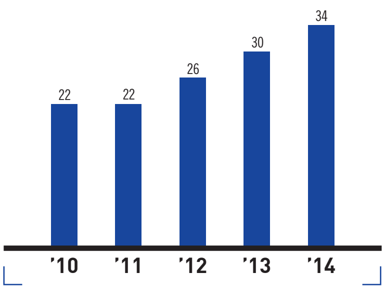
As a result, the Company saw income before income taxes and minority interests decrease ¥1,074 million, or 28.9%, year on year to ¥2,646 million (US$25,941 thousand). Total income taxes were ¥1,400 million (US$13,725 thousand). Net income after deducting minority interests was ¥1,143 million (US$11,206 thousand).

Basic net income per share was ¥27.17 (US$0.27) and diluted net income per share was ¥27.14 (US$0.27).

▶ **Dividend increased ¥4 year on year to ¥34 per share.**

CASH DIVIDENDS PER SHARE

(Yen)



The Company increased the annual dividend ¥4 for the year under review to ¥34 (US$0.33) per share. Total dividends increased ¥169 million, or 13.4%, to ¥1,431 million (US$14,029 thousand), and dividend on equity (DOE) increased 0.1 points to 3.4%. We plan to increase the annual dividend ¥4 in the fiscal year ending February 2015 to ¥38 per share.

Regarding future dividends, the Company is emphasizing shareholder returns and is therefore aiming for a total shareholder return ratio of at least 40%. DOE will also be considered in setting future dividends. Planned use for internal reserves will include investment in future growth areas to achieve sustainable growth, with the goal of raising both corporate value and shareholder profits.

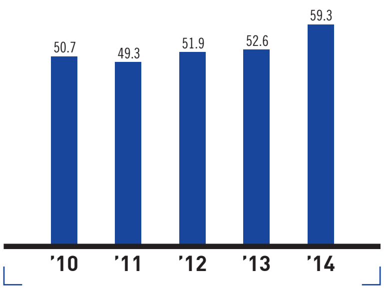
Financial Position and Liquidity

▶ **Total assets increased mainly due to an increase in property, plant and equipment, and trade notes and accounts receivable.**

Total current assets as of February 28, 2014 were ¥41,233 million (US$404,245 thousand), an increase of ¥5,406 million, or 15.1%, compared with the previous fiscal year-end. This increase chiefly reflected an increase in cash and cash equivalents of ¥883 million, or 6.7%, to ¥14,081 million (US$138,049 thousand), as well as an increase in trade notes and accounts receivable of ¥2,729 million, or 31.6%, to ¥11,358 million (US$111,353 thousand), in line with higher sales.

TOTAL ASSETS

(Billions of yen)



Net property, plant and equipment increased ¥851 million, or 6.3%, to ¥14,327 million (US$140,461 thousand). This rise was due mainly to the construction of a factory in Thailand in the Machine Tools business, resulting in an increase of ¥1,295 million, or 9.0%, in buildings and structures to ¥15,747 million (US$154,382 thousand). Total investments and other assets increased ¥482 million, or 14.8%, to ¥3,743 million (US$36,696 thousand). This was mainly due to an increase of ¥429 million, or 18.4%, in investment securities to ¥2,755 million (US$27,010 thousand).

As a result of the above, total assets increased ¥6,739 million, or 12.8%, from February 28, 2013 to ¥59,303 million (US$581,402 thousand).

▶ Total liabilities rose, mainly due to an increase in trade notes and accounts payable, reflecting higher purchases.

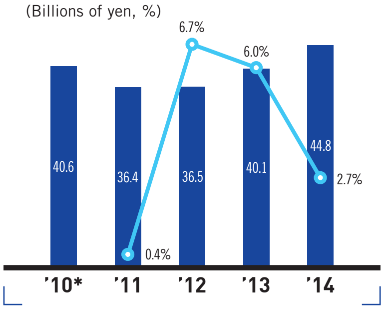
Current liabilities increased ¥1,530 million, or 13.2%, to ¥13,081 million (US$128,245 thousand). This rise mainly reflected an increase of ¥371 million, or 7.0%, in trade notes and accounts payable to ¥5,650 million (US$55,392 thousand) on account of higher purchases and an increase of ¥476 million, or 53.5%, in other current liabilities to ¥1,365 million (US$13,382 thousand).

Total long-term liabilities increased ¥221 million, or 72.9%, to ¥524 million (US$5,137 thousand). The main reason was that the liability for retirement benefits soared ¥177 million, or 453.8%, to ¥216 million (US$2,118 thousand).

▶ Equity rose year on year due mainly to an improvement in foreign currency translation adjustment.

EQUITY AND RETURN ON EQUITY

(Billions of yen, %)



■ Equity
ROE*

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

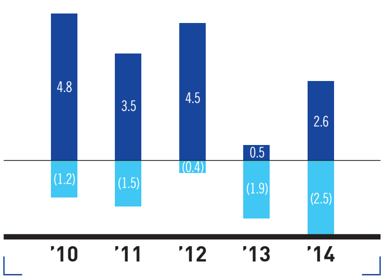
Equity increased ¥4,773 million, or 11.9%, to ¥44,827 million (US$439,481 thousand). This was largely the result of an increase in unrealized gain on available-for-sale securities of ¥229 million, or 92.0%, year on year, to ¥478 million (US$4,687 thousand) and an improvement in foreign currency translation adjustment of ¥4,519 million year on year. Total equity including minority interests increased ¥4,988 million, or 12.3%, to ¥45,698 million (US$448,020 thousand). The equity ratio declined 0.6 percentage points to 75.5%, while equity per share increased ¥112.38 to ¥1,063.52 (US$10.43).

Cash Flows

▶ Free cash flows were positive, accompanying the increase in net cash provided by operating activities; cash also increased.

CASH FLOWS

(Billions of yen)



■ Operating Cash Flows
■ Investing Cash Flows

Net cash provided by operating activities increased ¥2,114 million to ¥2,597 million (US$25,461 thousand). The main factors in operating cash flow were income before income taxes and minority interests, an adjustment in depreciation and amortization expenses, and an improvement in cash used in other-net of ¥2,312 million year on year, despite ¥1,694 million (US$16,607) cash used by the net result of changes in trade receivables, trade payables and inventories, and ¥1,411 million (US$13,833 thousand) in income taxes—paid.

Net cash used in investing activities was ¥2,455 million (US$24,068 thousand), an increase of ¥547 million from the previous fiscal year. This chiefly reflected ¥2,281 million (US$22,363 thousand) in net cash used for purchases of property, plant and equipment.

Net cash used in financing activities was ¥1,394 million (US$13,667 thousand), an increase of ¥192 million from the previous fiscal year. This was mainly the result of ¥1,346 million (US$13,196 thousand) in dividends paid to shareholders.

As a result of the above, after foreign currency translation adjustments on cash and cash equivalents of ¥2,135 million (US$20,931 thousand), cash and cash equivalents as of February 28, 2014 totaled ¥14,081 million (US$138,049 thousand), representing a net increase of ¥883 million from the previous fiscal year-end.

Capital Expenditures and R&D Expenses

▶ Capital expenditures decreased primarily because the Machine Tools Segment built a new factory in Thailand in the previous fiscal year.

Capital expenditures in fiscal 2014 declined ¥2,880 million, or 65.9%, year on year to ¥1,493 million (US$14,637 thousand). In fiscal 2015, the Company is forecasting capital expenditures of ¥2,462 million.

Special Products

Expenditures in the Special Products Segment fell ¥81 million year on year to ¥78 million (US$765 thousand). In fiscal 2015, the Company is budgeting ¥344 million of expenditures in this segment, mostly for dyes used in manufacturing new models.

Machine Tools

Expenditures in the Machine Tools Segment decreased ¥1,598 million from the previous fiscal year to ¥1,099 million (US$10,774 thousand), because the Machine Tools Segment built a new factory in Thailand in the previous fiscal year. In fiscal 2015, the Company is budgeting expenditures of ¥1,510 million for this segment, mostly for the factory's production facilities and equipment.

Precision Products

Expenditures in the Precision Products Segment declined ¥1,060 million year on year to ¥268 million (US$2,627 thousand), because of the restoration in the previous fiscal year of a factory in Thailand that was damaged by flooding. In fiscal 2015, we expect to spend ¥479 million primarily to conduct rationalization and bolster the segment's manufacturing capacity.

▶ Development of new products by the R&D Center and business divisions.

R&D Center

The R&D Center works to cultivate commercially viable businesses in new fields, and to provide technical support to all of the Company's segments.

In terms of cultivating new businesses, the R&D Center launched a number of projects, including projects for developing devices applying acoustics and sensing technologies, and for developing printer-related technologies. It teamed up with external partners to conduct development activities directed toward mass production as well. In the year under review, the R&D Center developed small vibration power generation units that transform imperceptible vibrations into electric power. Moreover, we commercialized an LED light that employs this unit, promoted the product for its capability of providing safety and reassurance when the user goes out at night, and it is now used in the business bags and suitcases of a major bag manufacturer. Looking ahead, we aim to further improve the product's power generation capabilities and undertake development in new fields, including by combining it with radio communication technology.

The R&D Center continues to provide other segments within the Company with technical support in the four areas of physico-chemical analysis, sophisticated computer aided engineering (CAE), quality engineering, and value engineering (VE), as it works to raise the technology level of the whole Company. The center is also responsible for supporting the testing and evaluation of products for quality assurance, as well as intellectual property-related operations with an eye to strengthening the competitive power of the entire Company. In these and other ways, the center will continue to fulfill a Company-wide technology and intellectual property role going forward.

Special Products

The Special Products Segment works to develop high-value-added products mainly for growth markets, centered on POS printers.

In the year under review, we developed the new product, Star WebPRNT, which enables direct printing from Internet applications, a capability that hitherto could not be realized. This capability has been built into four models of POS printer.

Star WebPRNT is an innovative solution to support users of Internet-based POS applications. With this solution's capabilities, the user is not dependent on a particular model of PC, smartphone or tablet device, operating platform (Windows, Mac, iOS, Android, etc.) or OS version. Instead, Star WebPRNT enables the user to print using any compatible printer through their own software application from a wide variety of host devices. Furthermore, because the user can print directly from the displayed Internet application via any one of a variety of Internet browsers (IE, Chrome, Safari, etc.) it is no longer necessary to install the application itself on the client device. As a result, there is a dramatic reduction in the labor of installing the client device and in the amount of maintenance that must be performed, such as updating the application. Moreover, because the application data is not retained in the PC or the tablet device, the system can preserve a high level of security.

At the same time, from the perspective of the system developer, it is no longer necessary to learn a series of conventional printer commands or the API specifications, and the product enables programming of the printing section by means of using a markup language (HTML/XML) that is suitable for Web programmers. Furthermore, by using the JavaScript library, or the abundant HTML sample codes available in the software development kit Star WebPRNT SDK, which is provided free of charge, the user can drastically reduce the amount of work to be done in the application development.

Machine Tools

The Machine Tools Segment, worked on development initiatives for expanding and improving the product line of its mainstay Swiss-type automatic lathes. In the fiscal year under review, the segment newly developed the *SV-38R* sophisticated machine tools for complex machining, and announced the EMO2013 and JIMTOF2013 at international exhibitions.

Since the sales launch of the *SV-20* in 1997, we have developed the *SV-38R* model as a product designed to further enhance the capabilities of the *SV* series with its cumulative sales volume over the last 16 years of around 1,800 centered on the U.S. and Europe. This product is targeted at the machining of components with complex shapes mainly in the medical, automobile and aviation fields.

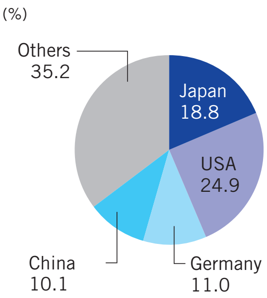
This new product can handle machined components with all long dimensions since it features a function for switching between a guide bush and no guide bush. The main headstock employs Star Micronics' proprietary spindle sleeve-type slideway as part of the non-guide bush specifications. This enhances the machine rigidity and accuracy in continuous machining, and also enables reducing the unneeded use of expensive materials by dramatically shortening the length of waste materials. For the turret-type tool post for front end working, the product has been equipped with the first tool-rotating control axis (B-axis) made by a Japanese manufacturer. Moreover, the mounting of a tool post exclusively for rear-side machining enables simultaneous front- and rear-side machining. In addition, the product is equipped with Star Micronics' proprietary Star Motion Control System to rigorously reduce the non-cutting time for switching the control system and changing tools. These improved capabilities mean that the product provides increased productivity in comparison with existing older models.

Our development in the software field centers mainly on ongoing improvements in operability, functionality and safety features, always with a firm eye on market needs.

Moreover, as part of its environmental initiative, the Machine Tools Segment has established its own Star Environmental Standards, and labels the automatic lathes satisfying these standards with an ECO mark for designation as Star Environmental Standards Conformity Models. Also, the segment is working to improve the ratio of components it consumes that are RoHS compliant, and to proactively promote the powder coating of sheet-metal parts.

Sales Framework and Net Sales by Region

NET SALES BY REGION



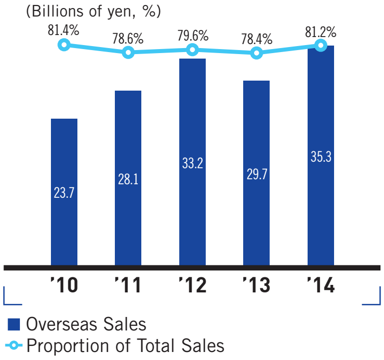
A significant proportion of Star Micronics' products are sold in international markets. To provide customer support on a global scale, the Company operates an extensive network of marketing sites overseas. (See table for main sites)

	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

	USA	Thailand	China	
Special Products	Star Micronics America, Inc.	Star Micronics Southeast Asia Co., Ltd.		
Machine Tools	Star CNC Machine Tool Corp.	Star Micronics (Thailand) Co., Ltd. Star Micronics Manufacturing (Thailand) Co., Ltd.	Shanghai Xingang Machinery Co., Ltd.	Star Micronics Manufacturing Dalian Co., Ltd.
Precision Products		Star Micronics Precision (Thailand) Co., Ltd.	Shanghai S&E Precision Co., Ltd.	

▶ Overseas sales as a share of total sales rose on an increase in overseas sales.

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



In the fiscal year under review, overseas sales as a proportion of total sales increased 2.8 percentage points to 81.2%.

By region, net sales in Germany rose ¥897 million, or 23.1%, to ¥4,772 million (US$46,784 thousand).

Net sales in the U.S. rose ¥2,077 million, or 23.7%, to ¥10,842 million (US$106,294 thousand).

Net sales in China rose ¥148 million, or 3.5%, to ¥4,390 million (US$43,039 thousand).

In Japan, net sales decreased ¥31 million, or 0.4%, to ¥8,161 million (US$80,010 thousand).

Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2014**	2013	**2014**
Current assets:			
Cash and cash equivalents (Note 16)	**¥ 14,081**	¥ 13,198	**$ 138,049**
Marketable securities (Notes 3 and 16)		229	
Short-term investments (Notes 4 and 16)	**1,198**	790	**11,745**
Receivables (Note 16):			
Trade notes and accounts receivable	**11,358**	8,629	**111,353**
Unconsolidated subsidiaries and associated companies	**758**	520	**7,432**
Other	**648**	696	**6,353**
Allowance for doubtful receivables	**(119)**	(85)	**(1,167)**
Inventories (Notes 5 and 12)	**12,749**	11,398	**124,990**
Deferred tax assets (Note 10)	**167**	166	**1,637**
Prepaid expenses and other	**393**	286	**3,853**
Total current assets	**41,233**	35,827	**404,245**
Property, plant and equipment (Note 12):			
Land	**2,981**	2,919	**29,226**
Buildings and structures	**15,747**	14,452	**154,382**
Machinery and equipment	**21,364**	21,113	**209,451**
Lease assets (Note 15)	**136**	104	**1,333**
Construction in progress	**54**	281	**530**
Total	**40,282**	38,869	**394,922**
Accumulated depreciation	**(25,955)**	(25,393)	**(254,461)**
Net property, plant and equipment	**14,327**	13,476	**140,461**
Investments and other assets:			
Investment securities (Notes 3 and 16)	**2,755**	2,326	**27,010**
Investments in unconsolidated subsidiaries and associated companies	**351**	137	**3,441**
Deferred tax assets (Note 10)	**145**	165	**1,422**
Other assets	**492**	633	**4,823**
Total investments and other assets	**3,743**	3,261	**36,696**
Total	**¥ 59,303**	¥ 52,564	**$ 581,402**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Payables (Note 16):			
Trade notes and accounts payable	**¥ 5,650**	¥ 5,279	**$ 55,392**
Unconsolidated subsidiaries and associated companies	**2**	1	**20**
Other	**2,043**	1,609	**20,029**
Short-term bank loans (Notes 6 and 16)	**2,000**	2,000	**19,608**
Current portion of long-term debt (Notes 6 and 15)	**26**	23	**255**
Income taxes payable (Note 10)	**441**	192	**4,324**
Accrued expenses	**820**	726	**8,039**
Deferred tax liabilities (Note 10)	**734**	832	**7,196**
Other	**1,365**	889	**13,382**
Total current liabilities	**13,081**	11,551	**128,245**
Long-term liabilities:			
Long-term debt (Notes 6 and 15)	**41**	35	**402**
Liability for retirement benefits (Note 7)	**216**	39	**2,118**
Deferred tax liabilities (Note 10)	**115**	80	**1,127**
Other	**152**	149	**1,490**
Total long-term liabilities	**524**	303	**5,137**
Commitments and contingent liabilities (Note 15)			
Equity (Notes 8, 9 and 22):			
Common stock – authorized, 158,000,000 shares;			
issued, 47,033,234 shares in 2014 and 2013	**12,722**	12,722	**124,726**
Capital surplus	**13,882**	13,876	**136,098**
Stock acquisition rights (Note 9)	**54**	35	**529**
Retained earnings	**24,357**	24,379	**238,794**
Treasury stock – at cost,			
4,934,661 shares in 2014 and 4,957,879 shares in 2013	**(4,688)**	(4,710)	**(45,961)**
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	**478**	249	**4,687**
Foreign currency translation adjustments	**(1,978)**	(6,497)	**(19,392)**
Total	**44,827**	40,054	**439,481**
Minority interests	**871**	656	**8,539**
Total equity	**45,698**	40,710	**448,020**
Total	**¥59,303**	¥52,564	**$581,402**

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales	¥43,482	¥37,858	$426,294
Cost of sales (Note 7)	28,047	24,683	274,970
Gross profit	15,435	13,175	151,324
Selling, general and administrative expenses (Notes 7 and 11)	12,829	11,595	125,775
Operating income	2,606	1,580	25,549
Other income (expenses):			
Interest and dividend income	190	187	1,863
Interest expense	(12)	(11)	(118)
Foreign exchange gain – net	167	331	1,637
Insurance income (Note 12)		971	
Special dividend income (Note 13)	95		931
Gain on sales of property, plant and equipment	8	388	78
Loss on disposals of property, plant and equipment	(26)	(38)	(255)
Gain on sales of investment securities		525	
Special severance payments for early retired employees		(381)	
Settlement package (Note 14)	(650)		(6,372)
Other – net	268	168	2,628
Other income – net	40	2,140	392
Income before income taxes and minority interests	2,646	3,720	25,941
Income taxes (Note 10):			
Current	1,486	709	14,568
Deferred	(86)	621	(843)
Total income taxes	1,400	1,330	13,725
Net income before minority interests	1,246	2,390	12,216
Minority interests in net income	103	90	1,010
Net income	¥ 1,143	¥ 2,300	$ 11,206

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.r, 8 and 19):			
Basic net income	¥27.17	¥54.66	$0.27
Diluted net income	27.14		0.27
Cash dividends applicable to the year	34.00	30.00	0.33

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net income before minority interests (Note 18)	¥1,246	¥2,390	$12,216
Other comprehensive income:			
Unrealized gain on available-for-sale securities	229	226	2,245
Foreign currency translation adjustments	4,661	2,272	45,696
Share of other comprehensive income in an associate	41		402
Total other comprehensive income	4,931	2,498	48,343
Comprehensive income (Note 18)	¥6,177	¥4,888	$60,559
Total comprehensive income attributable to (Note 18):			
Owners of the parent	¥5,916	¥4,721	$58,000
Minority interests	261	167	2,559

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Thousands	Millions of yen									
							Accumulated other comprehensive income (loss)				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock – at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, February 29, 2012	42,076	¥12,722	¥13,876	¥11	¥23,258	¥(4,710)	¥ 23	¥(8,692)	¥36,488	¥492	¥36,980
Net income					2,300				2,300		2,300
Cash dividends, ¥30.0 per share					(1,179)				(1,179)		(1,179)
Net increase in unrealized gain on available-for-sale securities							226		226		226
Net increase in foreign currency translation adjustments								2,195	2,195		2,195
Purchase of treasury stock	(1)					(0)			(0)		(0)
Net change in the year				24					24	164	188
Balance, February 28, 2013	42,075	¥12,722	¥13,876	¥35	¥24,379	¥(4,710)	¥249	¥(6,497)	¥40,054	¥656	¥40,710
Net income					1,143				1,143		1,143
Cash dividends, ¥34.0 per share					(1,346)				(1,346)		(1,346)
Net increase in unrealized gain on available-for-sale securities							229		229		229
Net increase in foreign currency translation adjustments								4,519	4,519		4,519
Purchase of treasury stock	(1)					(1)			(1)		(1)
Disposal of treasury stock	25		6			23			29		29
Change of scope of equity method					181				181		181
Net change in the year				19					19	215	234
Balance, February 28, 2014	42,099	¥12,722	¥13,882	¥54	¥24,357	¥(4,688)	¥478	¥(1,978)	¥44,827	¥871	¥45,698

	Thousands of U.S. dollars (Note 1)									
						Accumulated other comprehensive income (loss)				
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock – at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, February 28, 2013	$124,726	$136,039	$342	$239,009	$(46,176)	$2,442	$(63,696)	$392,686	$6,432	$399,118
Net income				11,206				11,206		11,206
Cash dividends, $0.33 per share				(13,196)				(13,196)		(13,196)
Net increase in unrealized gain on available-for-sale securities						2,245		2,245		2,245
Net increase in foreign currency translation adjustments							44,304	44,304		44,304
Purchase of treasury stock					(10)			(10)		(10)
Disposal of treasury stock		59			225			284		284
Change of scope of equity method				1,775				1,775		1,775
Net change in the year			187					187	2,107	2,294
Balance, February 28, 2014	$124,726	$136,098	$529	$238,794	$(45,961)	$4,687	$(19,392)	$439,481	$8,539	$448,020

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Operating activities:			
Income before income taxes and minority interests	**¥ 2,646**	¥ 3,720	**$ 25,941**
Adjustments for:			
Income taxes – paid	**(1,411)**	(1,031)	**(13,833)**
Depreciation and amortization	**1,885**	1,743	**18,480**
Settlement package (Note 14)	**650**		**6,373**
Provision for (reversal of) doubtful receivables	**13**	(24)	**127**
Provision for retirement benefits	**177**	5	**1,735**
Loss (gain) on sales and disposals of property, plant and equipment	**18**	(350)	**176**
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	**(1,196)**	1,546	**(11,725)**
(Increase) decrease in inventories	**(41)**	58	**(402)**
Decrease in trade payables	**(457)**	(3,185)	**(4,480)**
Other – net	**313**	(1,999)	**3,069**
Total adjustments	**(49)**	(3,237)	**(480)**
Net cash provided by operating activities	**2,597**	483	**25,461**
Investing activities:			
Purchases of property, plant and equipment	**(2,281)**	(3,266)	**(22,363)**
Proceeds from sales of property, plant and equipment	**4**	621	**39**
Purchases of investment securities	**(206)**	(288)	**(2,019)**
Proceeds from sales of marketable and investment securities	**359**	956	**3,520**
Other – net	**(331)**	69	**(3,245)**
Net cash used in investing activities	**(2,455)**	(1,908)	**(24,068)**
Financing activities:			
Dividends paid to shareholders	**(1,346)**	(1,177)	**(13,196)**
Dividends paid to minority shareholders of consolidated subsidiaries	**(45)**	(3)	**(441)**
Payments for purchase of treasury stock	**(1)**	(0)	**(10)**
Disposal of treasury stock	**22**		**215**
Other – net	**(24)**	(22)	**(235)**
Net cash used in financing activities	**(1,394)**	(1,202)	**(13,667)**
Foreign currency translation adjustments on cash and cash equivalents	**2,135**	1,089	**20,931**
Net increase (decrease) in cash and cash equivalents	**883**	(1,538)	**8,657**
Cash and cash equivalents at beginning of year	**13,198**	14,736	**129,392**
Cash and cash equivalents at end of year	**¥14,081**	¥13,198	**$138,049**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2014

1. Basis of Presentation of 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 accordance 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 2013 consolidated financial statements to conform to the classifications used in 2014.

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 has been made at the rate of ¥102 to $1, the approximate rate of exchange at February 28, 2014. Such translation should not be construed as a 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, 2014, include the accounts of the Company and its 18 (18 in 2013) significant 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.

Investment in one (none in 2013) associated company is accounted for by the equity method. For the year ended February 28, 2014, Star-Asia Technology Ltd., which was treated as a company to which the equity method was not applied prior to March 1, 2013, was newly included within the scope of the application of the equity method as a result of an increase of importance. Investments in the remaining 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 these consolidated financial statements, financial statements as of December 31 are used to consolidate foreign 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 also 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 that 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. However, 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, except for the following items which 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; and 5) exclusion of minority interests from net income, if contained in net income.

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 of Japan) or the net selling value.

e. Marketable and Investment Securities

All investment securities are classified as 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.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, nonmarketable 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 (11 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 (11 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.

Effective from the year ended February 28, 2014, the Company revised the recognition period of actuarial gain/loss and amortization period of prior-service period from 12 to 11 years, in line with a reduction in the average remaining years of service.

There was an insignificant impact on the financial statements as a result of this change.

i. Asset Retirement Obligations

In March 2008, the ASBJ published 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 the 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 adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. Stock Options

ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

k. Bonuses to Directors and Audit and Supervisory Board Members

Bonuses to directors and Audit and Supervisory Board Members are accrued at the year-end to which such bonuses are attributable.

l. 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.

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 by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

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.

m. Research and Development Costs

Research and development costs are charged to income as incurred.

n. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. 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.

o. Foreign Currency Transactions

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

p. 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" under accumulated other comprehensive income in a separate component of equity.

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

q. 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 statement of income.

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

r. Per Share Information

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

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

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

s. Accounting Changes and Error Corrections

In December 2009, the 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

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.

t. New Accounting Pronouncements

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013, with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on March 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for the year ending February 28, 2015.

3. Marketable and Investment Securities

Marketable and investment securities at February 28, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Current:			
Corporate and other bonds		¥ 229	
Total		¥ 229	
Non-current:			
Equity securities	**¥2,138**	¥1,830	**$20,961**
Corporate and other bonds	**564**	453	**5,529**
Trust fund investment and other	**53**	43	**520**
Total	**¥2,755**	¥2,326	**$27,010**

The costs and aggregate fair values of securities classified as available for sale at February 28, 2014 and 2013, were as follows:

	Millions of yen			
2014	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,499**	**¥543**	**¥15**	**¥2,027**
Corporate and other bonds	**556**	**8**		**564**
Trust fund investments and other	**29**	**24**		**53**

	Millions of yen			
2013	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,492	¥304	¥71	¥1,725
Corporate and other bonds	661	21		682
Trust fund investments and other	29	14		43

	Thousands of U.S. dollars (Note 1)			
2014	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$14,696**	**$5,324**	**$147**	**$19,873**
Corporate and other bonds	**5,451**	**78**		**5,529**
Trust fund investments and other	**285**	**235**		**520**

Proceeds from sales of available-for-sale securities for the years ended February 28, 2014 and 2013, were ¥359 million ($3,520 thousand) and ¥956 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2014, were ¥20 million ($196 thousand) and nil, and for the year ended February 28, 2013, were ¥525 million and ¥7 million, respectively.

4. Short-term Investments

Short-term investments at February 28, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Deposits over three-month period	¥1,198	¥790	$11,745
Total	¥1,198	¥790	$11,745

5. Inventories

Inventories at February 28, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Merchandise	¥ 387	¥ 386	$ 3,794
Finished products	7,522	7,410	73,745
Work in process	2,887	2,311	28,304
Raw materials and supplies	1,953	1,291	19,147
Total	¥12,749	¥11,398	$124,990

6. Short-term Bank Loans and Long-term Debt

Short-term bank loans at February 28, 2014 and 2013, consisted of bank overdrafts. The annual interest rates applicable for the years ended February 28, 2014 and 2013, were 0.31% and 0.33%, respectively.

Long-term debt at February 28, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Lease obligations	¥67	¥58	$657
Less: current portion	26	23	255
Long-term debt, less current portion	¥41	¥35	$402

Annual maturities of long-term debt at February 28, 2014, were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2015	¥26	$255
2016	16	157
2017	11	108
2018	9	88
2019	5	49
Total	¥67	$657

7. 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) asset for employees' retirement benefits at February 28, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Projected benefit obligation	**¥(8,036)**	¥(8,306)	**$(78,784)**
Fair value of plan assets	**7,149**	6,886	**70,088**
Unrecognized actuarial loss	**748**	1,565	**7,333**
Unrecognized prior-service cost	**(77)**	(113)	**(755)**
Net amount recognized	**¥ (216)**	¥ 32	**$ (2,118)**
Amounts recognized in the balance sheet consist of:			
Prepaid pension expense		¥ 71	
Liability for retirement benefits	**¥ (216)**	(39)	**$ (2,118)**
Net amount recognized	**¥ (216)**	¥ 32	**$ (2,118)**

The components of net periodic benefit costs for the years ended February 28, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Service cost	**¥ 382**	¥ 364	**$ 3,745**
Interest cost	**107**	106	**1,049**
Expected return on plan assets	**(172)**	(164)	**(1,686)**
Recognized net actuarial loss	**336**	318	**3,294**
Amortization of prior-service cost	**(36)**	(27)	**(353)**
Net periodic benefit costs	**¥ 617**	¥ 597	**$ 6,049**

Assumptions used for the years ended February 28, 2014 and 2013, were set forth as follows:

	2014	2013
Discount rate	**1.3%**	1.3%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**11 years**	12 years
Amortization period of prior-service cost	**11 years**	12 years

8. 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. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, 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 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.

9. Stock Options

The stock options outstanding as of February 28, 2014, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2011 Stock Option	8 directors 13 employees	126,000 shares	July 4, 2011	¥935	From July 1, 2013 to June 30, 2017
2012 Stock Option	6 directors 2 officers 14 employees	113,000 shares	July 2, 2012	¥827	From June 30, 2014 to June 29, 2018
2013 Stock Option	6 directors 2 officers 12 employees 18 directors of subsidiaries	192,000 shares	July 5, 2013	¥1,119	From June 29, 2015 to June 28, 2019

The stock option activity was as follows:

	Shares		
	2011 Stock Option	2012 Stock Option	2013 Stock Option
Year ended February 28, 2013			
Non-vested			
February 29, 2012 – Outstanding	126,000		
Granted		113,000	
Canceled			
Vested			
February 28, 2013 – Outstanding	126,000	113,000	
Vested			
February 29, 2012 – Outstanding			
Vested			
Exercised			
Canceled			
February 28, 2013 – Outstanding			
Year ended February 28, 2014			
Non-vested			
February 28, 2013 – Outstanding	126,000	113,000	
Granted			**192,000**
Canceled			
Vested	**126,000**		
February 28, 2014 – Outstanding		**113,000**	**192,000**
Vested			
February 28, 2013 – Outstanding			
Vested	**126,000**		
Exercised	**23,800**		
Canceled			
February 28, 2014 – Outstanding	**102,200**		
Exercise price	¥ 935	¥827	¥1,119
Average stock price at exercise	¥1,121		
Fair value price at grant date	¥ 254	¥167	¥ 191

The assumptions used to measure fair value of the 2013 Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	33.84%
Estimated remaining outstanding period:	Four years
Estimated dividend:	¥30.00 per share
Risk free interest rate:	0.235%

10. 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 37% and 40% for the years ended February 28, 2014 and 2013, 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, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Current:			
Deferred tax assets			
Accrued bonuses	**¥ 274**	¥ 234	**$ 2,686**
Tax loss carryforwards	**247**	71	**2,422**
Inventories	**205**	243	**2,010**
Unrealized profit on inventories	**47**	45	**461**
Allowance for doubtful receivables	**29**	25	**284**
Other – net	**97**	83	**951**
Less valuation allowance	**(471)**	(460)	**(4,618)**
Total	**428**	241	**4,196**
Deferred tax liabilities			
Undistributed earnings of associated companies	**895**	834	**8,775**
Tax-deductible inventory losses	**55**	37	**539**
Other – net	**45**	36	**441**
Total	**995**	907	**9,755**
Net deferred tax liabilities	**¥ (567)**	¥ (666)	**$ (5,559)**
Non-current:			
Deferred tax assets			
Tax loss carryforwards	**¥ 2,224**	¥ 2,070	**$ 21,804**
Depreciation	**207**	201	**2,029**
Write-down of investment securities	**165**	165	**1,618**
Impairment loss	**56**	125	**549**
Other – net	**297**	269	**2,912**
Less valuation allowance	**(2,782)**	(2,649)	**(27,274)**
Total	**167**	181	**1,638**
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	**83**	19	**814**
Prepaid pension expense		26	
Property, plant and equipment	**20**	20	**196**
Other – net	**34**	31	**333**
Total	**137**	96	**1,343**
Net deferred tax assets	**¥ 30**	¥ 85	**$ 295**

A reconciliation between the normal effective statutory tax rate for the years ended February 28, 2014 and 2013, and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2014	2013
Normal effective statutory tax rate	**37.2%**	39.8%
Undistributed earnings of associated companies	**15.3**	8.4
Effect of foreign tax rate differences	**(8.9)**	(12.1)
Unrealized profit on inventories	**6.9**	(0.7)
Valuation allowance	**1.6**	4.4
Tax exemption of associated companies		(5.2)
Other – net	**0.8**	1.2
Actual effective tax rate	**52.9%**	35.8%

On March 31, 2014, the Japanese government announced tax reform laws, which abolished a surtax for economic revival one year earlier than the original expiry date. As a result of this change, the effective tax rate used for the calculation of deferred tax assets and liabilities changed from approximately 37.2% to 34.8% for temporary differences expected to be reversed during the fiscal year beginning on March 1, 2015.

There is an insignificant impact as a result of this change.

11. Research and Development Costs

Research and development costs charged to income were ¥1,946 million ($19,078 thousand) and ¥1,895 million for the years ended February 28, 2014 and 2013, respectively.

12. Insurance Income

Assets which incurred significant damage from floods in Thailand in October 2011, such as production facilities and inventories, were covered by insurance, and an insurance benefit of ¥971 million was paid during the year ended February 28, 2013. Thus, the Group recognized this insurance benefit as insurance income.

13. Special Dividend Income

Special dividend income resulted from a dividend from Kikugawa Industrial Park Cooperative Association, an associate of the Company.

14. Settlement Package

The Group has entered a patent agreement under which it will pay royalties for patent use to a competing manufacturer in the POS printer field in the Special Products Segment.

As a result, for the year ended February 28, 2014, the Group recognized a loss of ¥650 million ($6,372 thousand) for settlement on patent use.

15. Leases

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

Obligations under non-cancelable operating leases at February 28, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Due within one year	**¥ 97**	¥ 78	**$ 951**
Due after one year	**219**	227	**2,147**
Total	**¥316**	¥305	**$3,098**

16. Financial Instruments and Related Disclosures

(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 are exposed to risks of interest rate fluctuations, but all of such loans 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 through periodic financial planning 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.

(a) Fair Value of Financial Instruments

	Millions of yen			Thousands of U.S. dollars (Note 1)		
February 28, 2014	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**¥14,081**	**¥14,081**		**$138,049**	**$138,049**	
Marketable and investment securities	**2,645**	**2,645**		**25,931**	**25,931**	
Short-term investments	**1,198**	**1,198**		**11,745**	**11,745**	
Trade receivables	**12,116**	**12,116**		**118,785**	**118,785**	
Total	**¥30,040**	**¥30,040**		**$294,510**	**$294,510**	
Trade payables	**¥ 5,652**	**¥ 5,652**		**$ 55,412**	**$ 55,412**	
Short-term bank loans	**2,000**	**2,000**		**19,608**	**19,608**	
Total	**¥ 7,652**	**¥ 7,652**		**$ 75,020**	**$ 75,020**	
Derivatives	**¥ (60)**	**¥ (60)**		**$ (588)**	**$ (588)**	

	Millions of yen		
February 28, 2013	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥13,198	¥13,198	
Marketable and investment securities	2,450	2,450	
Short-term investments	790	790	
Trade receivables	9,149	9,149	
Total	¥25,587	¥25,587	
Trade payables	¥ 5,280	¥ 5,280	
Short-term bank loans	2,000	2,000	
Total	¥ 7,280	¥ 7,280	
Derivatives	¥ (295)	¥ (295)	

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. Fair value information for 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 in more than one year, arising from some overseas subsidiaries having installment sales, is measured in a 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

Information on the fair value of derivatives is included in Note 17.

(b) Carrying Amount of Financial Instruments Whose Fair Value Cannot be Reliably Determined

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Investments in equity instruments that do not have a quoted market price in an active market	**¥110**	¥105	**$1,079**
Investments in unconsolidated subsidiaries and associated companies	**248**	32	**2,431**
Total	**¥358**	¥137	**$3,510**

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

	Millions of yen			
February 28, 2014	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	**¥14,081**			
Marketable and investment securities		**¥ 500**		
Short-term investments	**1,198**			
Trade receivables	**11,423**	**693**		
Total	**¥26,702**	**¥1,193**		

	Millions of yen			
February 28, 2013	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	¥13,198			
Marketable and investment securities	229	¥ 400		
Short-term investments	790			
Trade receivables	8,531	618		
Total	¥22,748	¥1,018		

	Thousands of U.S. dollars (Note 1)			
February 28, 2014	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	**$138,049**			
Marketable and investment securities		**$ 4,902**		
Short-term investments	**11,745**			
Trade receivables	**111,990**	**6,794**		
Total	**$261,784**	**$11,696**		

17. Derivatives

Derivative transactions to which hedge accounting is not applied

At February 28, 2014	Millions of yen Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables	**¥2,831**		**¥ 35**	**¥ 35**
Payables	**1,496**		**(95)**	**(95)**
Total				**¥(60)**

At February 28, 2013	Millions of yen Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables	¥3,381		¥(233)	¥(233)
Payables	1,396		(62)	(62)
Total				¥(295)

At February 28, 2014	Thousands of U.S. dollars (Note 1) Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables	**$27,755**		**$ 343**	**$ 343**
Payables	**14,667**		**(931)**	**(931)**
Total				**$(588)**

18. Comprehensive Income

The components of other comprehensive income for the years ended February 28, 2014 and 2013, were as follows:

	Millions of yen **2014**	2013	Thousands of U.S. dollars (Note 1) **2014**
Unrealized gain on available-for-sale securities:			
Gains arising during the year	**¥ 313**	¥ 240	**$ 3,068**
Reclassification adjustments to profit or loss	**(19)**	1	**(186)**
Amount before income tax effect	**294**	241	**2,882**
Income tax effect	**(65)**	(15)	**(637)**
Total	**¥ 229**	¥ 226	**$ 2,245**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥4,661**	¥2,272	**$45,696**
Total	**¥4,661**	¥2,272	**$45,696**
Share of other comprehensive income in an associate:			
Gains arising during the year	**¥ 41**		**$ 402**
Total	**¥ 41**		**$ 402**
Total other comprehensive income	**¥4,931**	¥2,498	**$48,343**

19. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 28, 2014 and 2013, was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted-average shares	EPS	
Year ended February 28, 2014				
Basic EPS				
Net income attributable to common shareholders	**¥1,143**	**42,083**	**¥27.17**	**$0.27**
Effect of dilutive securities				
Stock acquisition rights		**37**		
Diluted EPS				
Net income for computation	**¥1,143**	**42,120**	**¥27.14**	**$0.27**
Year ended February 28, 2013				
Basic EPS				
Net income attributable to common shareholders	¥2,300	42,076	¥54.66	$0.59
Effect of dilutive securities				
Stock acquisition rights				
Diluted EPS				
Net income for computation	¥2,300	42,076		

20. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group has four reportable segments: "Special Products," "Micro Audio Components," "Machine Tools," and "Precision Products."

"Special Products" produces and sells POS printers, visual cards, readers/writers and others.

"Micro Audio Components" produces and sells electronic buzzers, speakers and others.

"Machine Tools" produces and sells CNC automatic lathes and others.

"Precision Products" produces and sells wristwatch parts, automotive parts, air conditioning parts, HDD parts, medical parts and others.

During the fiscal year ended February 28, 2014, the "Micro Audio Components" segment ceased operations.

2. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit (loss), assets, liabilities and other items.

	Millions of yen						
	Reportable Segment						
2014	Special Products	Micro Audio Components	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	**¥9,455**	**¥3,166**	**¥26,970**	**¥3,891**	**¥43,482**		**¥43,482**
Intersegment sales or transfers							
Total	**9,455**	**3,166**	**26,970**	**3,891**	**43,482**		**43,482**
Segment profit	**¥ 976**	**¥ 143**	**¥ 3,598**	**¥ 140**	**¥ 4,857**	**¥(2,251)**	**¥ 2,606**
Segment assets	**¥7,502**	**¥1,260**	**¥36,027**	**¥7,793**	**¥52,582**	**¥ 6,721**	**¥59,303**
Other items:							
Depreciation	**197**	**10**	**975**	**555**	**1,737**	**148**	**1,885**
Investments in an associate	**245**				**245**		**245**
Increase in property, plant and equipment and intangible assets	**78**	**6**	**1,099**	**268**	**1,451**	**42**	**1,493**

	Millions of yen						
	Reportable Segment						
2013	Special Products	Micro Audio Components	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	¥7,806	¥3,233	¥22,897	¥3,922	¥37,858		¥37,858
Intersegment sales or transfers							
Total	7,806	3,233	22,897	3,922	37,858		37,858
Segment profit (loss)	¥ 257	¥ (191)	¥ 3,121	¥ 356	¥ 3,543	¥(1,963)	¥ 1,580
Segment assets	¥6,279	¥2,020	¥31,319	¥7,017	¥46,635	¥ 5,929	¥52,564
Other items:							
Depreciation	273	34	814	469	1,590	153	1,743
Increase in property, plant and equipment and intangible assets	159	27	2,697	1,328	4,211	162	4,373

	Thousands of U.S. dollars (Note 1)						
	Reportable Segment						
2014	Special Products	Micro Audio Components	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	**$92,696**	**$31,039**	**$264,412**	**$38,147**	**$426,294**		**$426,294**
Intersegment sales or transfers							
Total	**92,696**	**31,039**	**264,412**	**38,147**	**426,294**		**426,294**
Segment profit	**$ 9,569**	**$ 1,402**	**$ 35,274**	**$ 1,373**	**$ 47,618**	**$(22,069)**	**$ 25,549**
Segment assets	**$73,549**	**$12,353**	**$353,206**	**$76,402**	**$515,510**	**$ 65,892**	**$581,402**
Other items:							
Depreciation	**1,931**	**98**	**9,559**	**5,441**	**17,029**	**1,451**	**18,480**
Investments in an associate	**2,402**				**2,402**		**2,402**
Increase in property, plant and equipment and intangible assets	**765**	**59**	**10,774**	**2,627**	**14,225**	**412**	**14,637**

Notes: 1. Reconciliations recorded for segment profit (loss) include corporate expenses that are not allocated to any reportable segment. Corporate expenses principally consist of general corporate expenses incurred by the Administration Headquarters of the Company.

2. Reconciliations recorded for segment assets include corporate assets that are not allocated to any reportable segment. Corporate assets principally consist of 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).

3. Reconciliations recorded for depreciation include depreciation incurred by corporate assets that are not allocated to any reportable segment.

4. Reconciliations recorded for increase in property, plant and equipment and intangible assets are capital investments principally for corporate assets that are not allocated to any reportable segment.

5. Segment profit agrees with operating profit on the accompanying consolidated statement of income.

6. Effective the fiscal year ended February 28, 2014, the reportable segment formerly disclosed as “Components” was renamed “Micro Audio Components.”
There was no impact on the segment information as a result of this change, and the segment information for the year ended February 28, 2013, is disclosed similarly.

Related Information

Related information by geographical area at February 28, 2014 and 2013, consisted of the following:

(1) Net Sales

	Millions of yen					
2014	Japan	USA	Germany	China	Others	Total
	¥8,161	**¥10,842**	**¥4,772**	**¥4,390**	**¥15,317**	**¥43,482**

	Millions of yen					
2013	Japan	USA	Germany	China	Others	Total
	¥8,192	¥8,765	¥3,875	¥4,242	¥12,784	¥37,858

	Thousands of U.S. dollars (Note 1)					
2014	Japan	USA	Germany	China	Others	Total
	$80,010	**$106,294**	**$46,784**	**$43,039**	**$150,167**	**$426,294**

Note: Sales are classified by countries or regions based on location of customers.

(2) Property, Plant and Equipment

	Millions of yen				
2014	Japan	Thailand	China	Others	Total
	¥6,608	**¥4,435**	**¥2,197**	**¥1,087**	**¥14,327**

	Millions of yen				
2013	Japan	Thailand	China	Others	Total
	¥7,245	¥3,373	¥1,973	¥885	¥13,476

	Thousands of U.S. dollars (Note 1)				
2014	Japan	Thailand	China	Others	Total
	$64,784	**$43,481**	**$21,539**	**$10,657**	**$140,461**

21. Related Party Disclosures

Transactions of the Company with directors for the year ended February 28, 2014, were as follows:

Related party	Category	Description of transaction	Millions of yen	Thousands of U.S. dollars (Note 1)
Hajime Sato	President & CEO	Exercise of stock options	**¥12**	**$118**

22. Subsequent Event

The following appropriation of retained earnings at February 28, 2014, was to be approved at the Company's shareholders' meeting held on May 22, 2014:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥17 ($0.167) per share	**¥716**	**$7,020**

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
AOI TOWER
17-1, Koya-machi, Aoi-ku
Shizuoka-shi, Shizuoka 420-0852
Japan

Tel:+81 (54) 273 8091
Fax:+81 (54) 273 8166
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Star Micronics Co., Ltd. and its consolidated subsidiaries as of February 28, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its consolidated subsidiaries as of February 28, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

May 13, 2014

Member of
Deloitte Touche Tohmatsu Limited

Stock Information

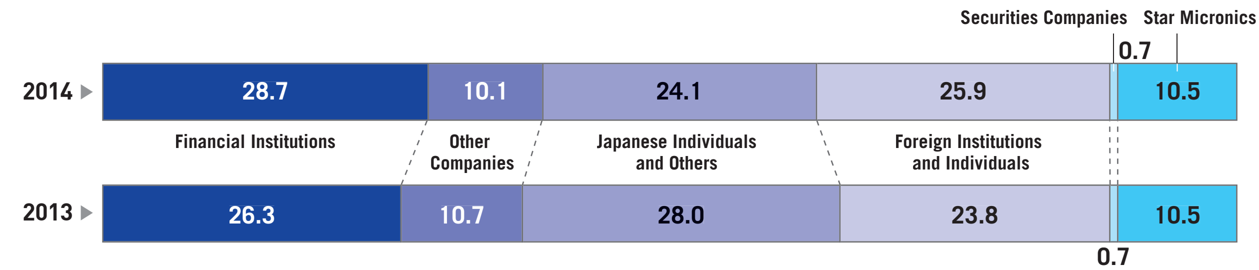
as of February 28, 2014

Common Stock	Authorized	158,000,000
	Issued	47,033,234
Paid-in Capital		12,721,939,515 yen
Number of Shareholders		8,562

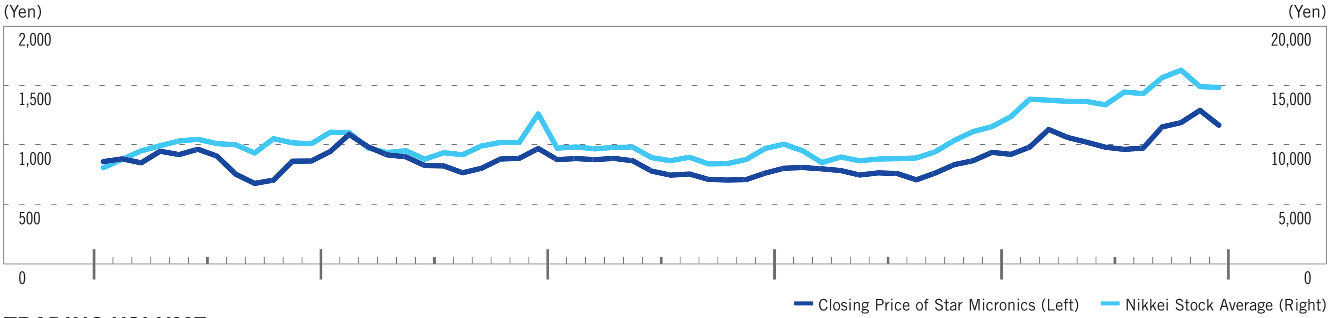
Stock Listing	First Section of the Tokyo Stock Exchange
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

COMPOSITION OF SHAREHOLDERS

(%)

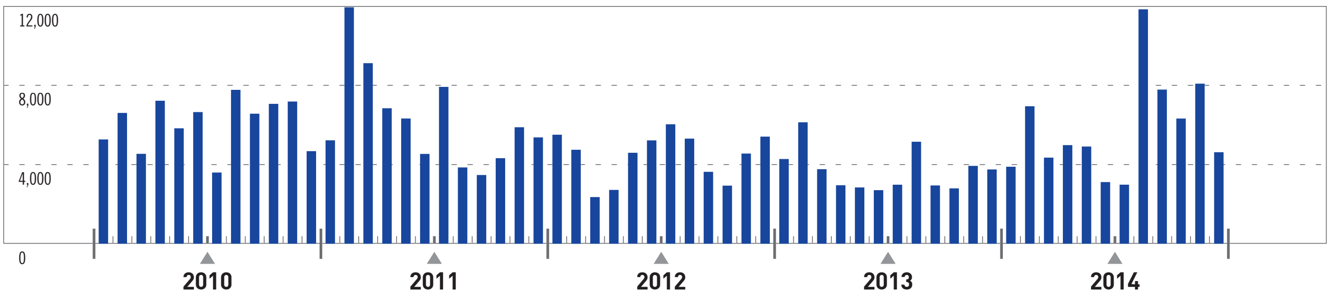


STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



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	2010	2011	2012	2013	2014
At year-end	878	929	807	943	1,178
High	1,020	1,182	958	988	1,422
Low	595	702	657	647	857

STAR MICRONICS CO., LTD.

20-10 Nakayoshida, Suruga-ku,
Shizuoka 422-8654, Japan
Tel +81-54-263-1111
www.star-m.jp

Printed in Japan