

September 30, 2010

## Fiscal 2011 Second-quarter Consolidated Earnings Report

Company name: Star Micronics Co., Ltd.

Stock listing: First Section, Tokyo Stock Exchange

Code: 7718 URL <http://www.star-m.jp>

Representative Director: Hajime Sato, President and CEO

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Scheduled release of fiscal 2011 Second-quarter Business Report: October 14, 2010

Scheduled payment of dividends: November 10, 2010

Preparation of supplementary explanatory materials for quarterly earnings report: Yes

Quarterly earnings presentation: Yes

(Figures less than one million are rounded down)

### 1. Results for the Second Quarter of Fiscal 2011 (March 1, 2010 to August 31, 2010)

(1) Consolidated Operating Results (Percentages represent changes over the corresponding period of the previous fiscal year.)

	Net Sales		Operating Income (Loss)		Ordinary Income (Loss)		Net Loss	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Six months ended August 31, 2010	16,967	27.6	389	—	222	—	(1,082)	—
Six months ended August 31, 2009	13,296	—	(2,003)	—	(1,984)	—	(2,974)	—

	Net Loss Per Share	Diluted Net Income Per Share
	(¥)	(¥)
Six months ended August 31, 2010	(24.56)	—
Six months ended August 31, 2009	(63.32)	—

### (2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	(¥ million)	(¥ million)	%	(¥)
As of August 31, 2010	49,145	38,050	76.0	847.84
As of February 28, 2010	50,680	41,260	80.1	921.55

Reference: Shareholders' Equity

As of August 31, 2010 ¥37,370 million As of February 28, 2010 ¥40,609 million

### 2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
Year ended February 28, 2010	—	11.00	—	11.00	22.00
Year ended February 28, 2011	—	11.00			
Year ended February 28, 2011 (projected)			—	11.00	22.00

(Note) Modifications to the dividend projection in the second quarter: None

### 3. Consolidated Outlook for the Fiscal Year Ending February 28, 2011 (From March 1, 2010 to February 28, 2011)

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Loss		Net Loss Per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Year	35,500	21.7	900	—	800	—	(800)	—	(18.36)

(Note) Modifications to forecasts of consolidated operating results in the second quarter: Yes

4. Others (Please see Other Information on page 5 of the attachment)

(1) Significant changes in subsidiaries during the period under review: None

(Note) This indicates changes in the status of specified subsidiaries resulting in changes in the scope of consolidation during the second quarter.

(2) Adoption of simplified accounting methods and special accounting methods for financial statements: None

(Note) This indicates whether any simplified accounting methods or special accounting methods were used in the preparation of the quarterly financial statements.

(3) Changes to accounting principles, procedures or methods of presentation

(i) Changes associated with revised accounting standards: None

(ii) Changes other than those in (i) above: Yes

(Note) This indicates the presence of any changes in the accounting principles, procedures or methods of presentation for the preparation of the quarterly financial statements as listed under "Changes to key basic items for preparation of the quarterly consolidated financial statements"

(4) Number of shares issued and outstanding (common stock)

(i) Number of shares issued and outstanding at period-end (including treasury stock)

As of August 31, 2010: 51,033,234 shares      As of February 28, 2010: 51,033,234 shares

(ii) Number of treasury stock at period-end

As of August 31, 2010: 6,955,559 shares      As of February 28, 2010: 6,965,942 shares

(iii) Average number of outstanding shares (during the six months ended August 31)

As of August 31, 2010: 44,074,731 shares      As of August 31, 2009 : 46,967,891 shares

\* Disclosure regarding progress of quarterly review procedures

This quarterly earnings report is not subject to quarterly reviews stipulated in the Financial Instruments and Exchange Act of Japan. As of the time this report was released, the Company has not completed review procedures for the quarterly consolidated financial statements based on the Financial Instruments and Exchange Act.

\* Regarding the appropriate use of earnings projections and other noteworthy matters

1. The above projections are based on information available at the time of release of this report. Actual results may differ materially from projections due to a variety of factors. In light of operating results for the first half of fiscal 2011, Star Micronics has revised its consolidated earnings projections announced on September 2, 2010. For further details, please see the separate press release titled "Differences Between First-half Fiscal 2011 Consolidated Forecasts and Results, and Revision of Full-year Fiscal 2011 Consolidated Forecasts" issued today (September 30, 2010).

2. The revised consolidated net income per share forecast for fiscal 2011 reflects the impact of the repurchase of the Company's own shares based on Board of Directors' resolutions passed on September 2, 2010.

## **1. Qualitative Financial Information**

### **(1) Qualitative Information Related to Consolidated Operating Results**

During the first two quarters of the fiscal year ending February 28, 2011, the U.S. economy continued its recovery, but at a slower pace, while the pace of recovery for the European economies was sluggish on concerns over a fiscal crisis in euro-zone countries. Meanwhile, Asian economies continued to see high growth led by China, and the Japanese economy continued to stage a gradual recovery despite the ongoing appreciation of the yen.

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

Amid this environment, in the Machine Tools Segment the Group continued to increase production capacity in response to increased orders and strove to increase sales. Sales in the Special Products Segment increased in the North American market, which showed signs of recovery, as well as in China. Meanwhile, in the Components business, restructuring efforts continued in response to reduced production and the Group worked to increase sales of products for the automobile market. In the Precision Products Segment, sales increased as wristwatch makers completed production cutbacks, and demand recovered in the automobile and personal computer markets, among other factors.

As a result of the above factors, Star Micronics reported consolidated sales of ¥16,967 million, up 27.6% year on year, for the first two quarters of fiscal 2011. As regards profits, the rebound in sales coupled with the effects of reducing fixed costs and other expenses resulted in operating income of ¥389 million, compared with an operating loss of ¥2,003 million for the same period in the previous fiscal year, and ordinary income was ¥222 million, compared with an ordinary loss of ¥1,984 million a year ago. Despite these improvements, the Group posted a net loss of ¥1,082 million, compared with a net loss of ¥2,974 million for the same period in the previous fiscal year, due to special severance payments for early retired employees and other factors.

Performance by segment was as follows:

#### **(Special Products)**

In POS printers, along with firm growth in the South American market, signs of a recovery in demand also emerged in the North American market, as sales of thermal printers, most notably for the POS market, increased. In the Chinese market, where aggressive measures are under way to boost domestic demand, sales of dot-matrix printers rose principally atop increased demand for products for the POS market. On the other hand, performance was sluggish overall in the European market, where economic recovery continues to lag, resulting in largely flat sales year-on-year.

As a result of the above, segment sales rose 25.6% to ¥3,975 million, while operating income improved 292.7% to ¥425 million.

Moreover, sales of new products commenced, including environmentally-friendly thermal eco-printers and mobile printers for the U.S market.

#### **(Components)**

In this business segment, from fiscal 2011 the Group shifted the emphasis of business operations from products for the mobile phone market, where profitability is now challenging, to the automobile and other markets. Subsequently, sales in the mobile phone market plummeted. Meanwhile, in the automobile market, electronic buzzer and speaker sales increased primarily in the U.S. in line with an upturn in market conditions. Where production is concerned, in response to lower sales in the mobile phone market, Star Micronics took steps to improve its operating structure that included workforce downsizing at production sites overseas.

As a result of the foregoing, the segment saw sales fall 33.2% to ¥2,685 million and reported an operating loss of ¥250 million, compared with an operating loss of ¥635 million a year earlier.

(Machine Tools)

In CNC automatic lathes, as the global economy began to recover, signs of a rebound in market prices finally began to appear after a protracted slump. By region, China and other Asian markets saw increased capital investment among customers in the automobile and motorcycle and other sectors, with orders since the second half of last year continuing to exceed those in the same period of the previous fiscal year. In the U.S. market, sales activities were focused on medical-related fields, where we have achieved steady growth in orders. Orders in the European market, where the most challenging conditions had persisted, have improved since the start of fiscal 2011. By product, sales increased mainly for SR series and SB series products, the latter of which feature superior cost performance.

As a result of the above, segment sales rose a substantial 74.1% to ¥8,157 million, with operating income of ¥682 million, reversing by a large margin an operating loss of ¥465 million for the same period in the previous fiscal year.

Moreover, the Group commenced sales of the ST-38, which targets medical, automobile and aviation industrial fields that involve machining of complex shaped parts of difficult-to-cut materials such as titanium. Furthermore, during the fourth quarter of fiscal 2011, the Group plans to launch the new SB-20 product and turning center for small precision components, with the aim of increasing its share of the CNC automatic lathe market in the terms of sales.

(Precision Products)

Sales of wristwatch components grew substantially, as demand continued to rebound following the completion of production cutbacks by client manufacturers. Sales of non-wristwatch components were also higher, reflecting brisk sales of car audio components accompanying recovery in the automobile market, as well as a resurgence in sales of small HDD components for laptop computers, despite production cutbacks by HDD manufacturers in the second quarter.

As a result, the segment saw sales improve sharply by 50.4% to ¥2,149 million and recorded operating income of ¥355 million, reversing by a large margin an operating loss of ¥166 million in the previous fiscal year.

## **(2) Qualitative Information Concerning Consolidated Financial Position**

Total assets at the end of the second quarter amounted to ¥49,145 million, down ¥1,535 million from February 28, 2010. The change was mainly attributable to the overall impact of foreign exchange rates. On the assets side of the balance sheet, there was a decline in fixed assets mainly reflecting restrained investment and impairment losses on marketable securities, along with a decrease in trade notes and accounts receivable, among other items. Total liabilities increased ¥1,674 million from the end of the previous fiscal year, primarily due to an increase in notes and accounts payable due to an upturn in production. Total net assets declined ¥3,210 million compared to February 28, 2010, mainly due to a decline in foreign currency translation adjustments, the net loss and the payment of dividends.

## **(3) Qualitative Information Concerning the Consolidated Earnings Projections**

In light of operating results for the first half of fiscal 2011, Star Micronics has revised its consolidated earnings projections announced on September 2, 2010. For further details, please see the separate press release titled "Differences Between First-half Fiscal 2011 Consolidated Forecasts and Results, and Revision of Full-year Fiscal 2011 Consolidated Forecasts" issued today (September 30, 2010).

Star Micronics' projections assume second-half exchange rates of ¥85 and ¥105 against the U.S. dollar and euro, respectively.

## **2. Other Information**

(1) Changes in the status of important subsidiaries during the quarter: None

(2) Application of simplified accounting methods and special accounting methods: None.

(3) Changes in accounting principles, procedures and presentation methods in the preparation of financial statements

(Additional Information)

(Actuarial differences in the provision for retirement benefits and changes in years for expensing past service cost)  
Previously, actuarial differences and past service cost were expensed over a period of 14 years. However, in light of a shorter average period of service for employees, these items have been expensed over a period of 13 years since the first quarter of fiscal 2011.

This change had a negligible impact on income for the first half of fiscal 2011.