

REVIEW OF OPERATIONS

SPECIAL PRODUCTS

We will move forward with identifying new clients and other efforts in regions where future growth is anticipated.



TSP100 POS printers

The TSP100 offers dependable and fast printing even of complex printing data, thanks to a redesigned method for the control and processing of printing data. The printer also features multifunctional utilities, including 180-degree letter rotation for printing data. The TSP100 has earned a strong market reputation since its launch, and can currently be found in use in department stores, supermarkets, restaurants and a host of other locations worldwide.

SHIPMENTS OF POS PRINTERS

(Thousands of units)

	2009	2010	Change (%)
Europe	144	124	(13.9)
Americas	208	169	(18.8)
Asia	109	77	(29.4)
Japan and elsewhere	28	20	(28.6)
Total	488	390	(20.1)

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2010

In the Special Products Segment, the main products are point-of-sale (POS) printers and card reader/writers.

Backed by a strong product lineup in POS printers developed over the years, we sought to uncover new demand by forming alliances with authorized dealers in every region and conducting meticulous marketing activities. Along with efforts in the European and American markets, we aggressively pursued marketing activities in newly emerging markets as well. The business environment, however, remained a challenging one, largely reflecting a cautious approach to new investment among clients and the impact of the yen's appreciation on currency exchange rates.

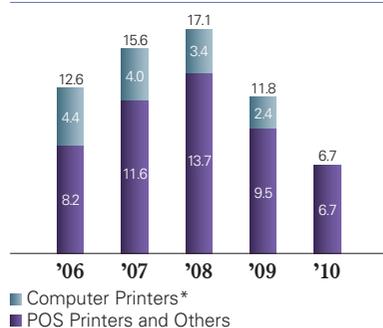
By region, signs of a recovery in sales were evident mainly in South America and China. In Europe, adverse conditions remained in place due, as in the previous fiscal year, to weak consumer spending. Turning to Asia, sales in China appeared relatively stable, especially for dot-matrix printers, tracking an increase in retailers, including those in mainland China. In the Americas, demand recovered in line with economic improvement in Brazil and other parts of South America.

As for new products, the Company launched the TUP500, a small kiosk terminal-embedded thermal printer designed to answer needs for a more compact terminal.

Both sales and operating income were significantly lower for the year. Sales fell 42.9%, or ¥5,073 million, to ¥6,740 million (US\$75,730 thousand). Operating income declined 82.6%, or ¥1,322 million, to ¥279 million (US\$3,135 thousand).

SPECIAL PRODUCTS SEGMENT SALES

(Billions of yen)



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

OUTLOOK FOR FISCAL 2011

Forecasts predict a slow recovery in capital investment, most notably in the Company's mainstay POS market. Nevertheless, we plan to increase sales through the launch of new products, and by identifying new clients in China, Southeast Asia, South America and other regions where future growth is anticipated.

For business results, we are projecting segment sales of ¥7,620 million, up 13.1% from the previous fiscal year, and operating income of ¥850 million, an increase of 204.7% year on year.

COMPONENTS

Following business restructuring, our pivotal focus has switched from mobile phones to the automobile sector.

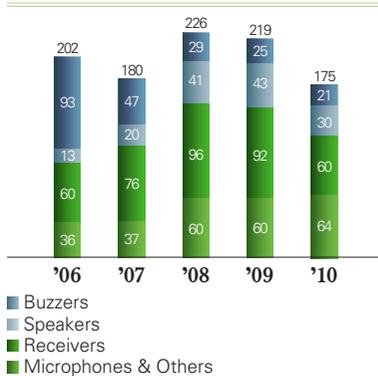


RBB-04 BA Receiver

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

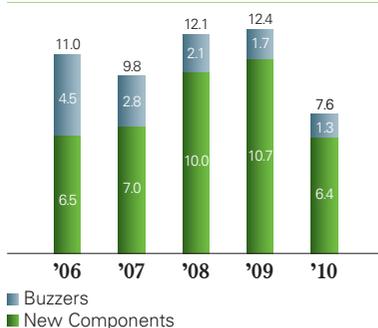
COMPONENTS SEGMENT SALES BY VOLUME

(Millions of units)



COMPONENTS SEGMENT SALES

(Billions of yen)



BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2010

In this segment, Star Micronics is involved in the manufacture of a comprehensive range of micro audio components, including microphones, receivers, speakers and electronic buzzers. Users of these products are diversifying beyond mobile phone manufacturers, with components increasingly used in automobile ETC terminals and a variety of digital equipment.

Market needs continue to polarize into two areas—more sophisticated functions versus increasingly low prices. In this climate, we sought during the year to reduce costs, mainly from improved productivity through greater investment rationalization and local component procurement. We also took action to develop new products and identify new clients.

The order environment grew more challenging during the year in the mobile phone market, Star Micronics' core market in this segment. This trend primarily stemmed from more intense cost competition from the rise of rival manufacturers, coupled with pressure from mobile phone manufacturers to lower prices. As a result, sales were lower particularly for receivers and speakers.

Similarly in the automobile sector, sales declined despite a temporary jump in demand for components used in automobile ETC terminals. This increase ultimately had limited impact on sales.

By product, microphones and others achieved strong unit sales of 64 million units, up 6.7% year on year on a unit volume basis, in a severe business environment. Sales of receivers amounted to 60 million units, down 34.8% year on year. Sales of speakers, meanwhile, decreased 30.2% year on year to 30 million units. Similarly, sales of electronic buzzers dropped 16.0% year on year to 21 million units.

From the above factors, sales in the Components segment declined 38.1% year on year, or ¥4,706 million, to ¥7,646 million (US\$85,910 thousand). The Company recorded an operating loss of ¥1,526 million (US\$17,146 thousand), attributed to lower sales, and booked a loss on impairment of long-lived assets, specifically production equipment, as "Other income (expenses)."

OUTLOOK FOR FISCAL 2011

The competitive environment and other conditions are likely to remain severe in the market for mobile phone components. Given this outlook, the Company will take steps to restructure this business in fiscal 2011, shifting focus from the mobile phone market to components for the automobile market.

Business results are expected to temporarily worsen during the year. Consequently, we are projecting sales of ¥3,840 million, down 49.8% year on year, and an operating loss of ¥750 million.

MACHINE TOOLS

We are striving for a recovery in performance through aggressive marketing activities in China and other parts of Asia together with the launch of new products.



ECAS-20T Swiss-type Automatic Lathe

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

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MACHINE TOOLS SEGMENT SALES VOLUME BY GEOGRAPHICAL REGION

	2009	2010	Change (%)
Japan	348	159	(54.3)
North America	357	145	(59.4)
Europe	715	212	(70.3)
Asia	474	364	(23.2)
Total	1,894	880	(53.5)

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2010

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

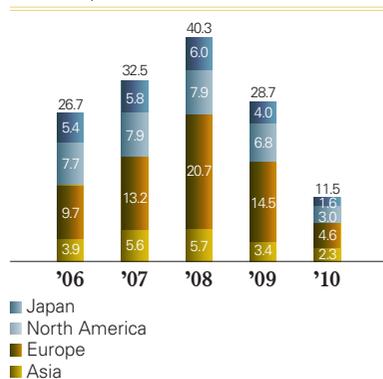
In CNC automatic lathes, while sales recovered most notably among automotive clients in China and other Asian markets, performance remained subdued in other regions, including in our mainstay market, Europe, as customers continued to curb capital investments.

Looking at sales by geographical region, we conducted marketing activities targeting the medical equipment market in the Americas, which remains relatively robust, and took other steps to increase order volume. Despite these efforts, sales fell sharply in Japan, Asia, Europe and the Americas, with sales volume down a substantial 53.5% year on year, to 880 units.

Following a review of the Company's sales framework, the decision was reached to dissolve Star Micronics AB, a sales subsidiary in Sweden. This decision reflects our judgment that a recovery in market volume sufficient to justify the existence of a sales company in northern Europe appears unlikely.

In this unusually severe business environment, we made drastic cutbacks in production in an attempt to rightsize inventory levels, among other countermeasures. Despite these efforts, sales fell 60.1% year on year, to ¥11,464 million (US\$128,809 thousand). Tracking the sharp drop in sales, we posted an operating loss of ¥940 million (US\$10,562 thousand).

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION



OUTLOOK FOR FISCAL 2011

Recovery in orders from developed countries, the Company's mainstay markets, is expected to remain sluggish as market performance continues to falter. In contrast, order volume is projected to rise in Asia, specifically in China and in Japan, our domestic market. In tandem with vigorous marketing activities in Asia and in emerging markets, we will step up our activities to lift sales by developing models with superior cost competitiveness through further paring down of non-essential functions compared to earlier low-cost models.

In terms of performance, we are projecting sales of ¥15,010 million, up 30.9% from the previous fiscal year, and operating income of ¥410 million.

PRECISION PRODUCTS

Business performance is set to recover atop increased orders for automotive components and components for laptop PC hard disk drives (HDDs).

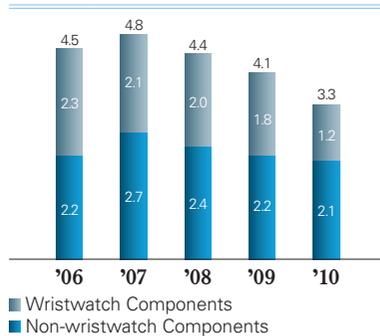


Components for compact hard disk drives (HDDs)

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

PRECISION PRODUCTS SEGMENT SALES

(Billions of yen)



BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2010

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).

As the market for wristwatch components is mature, with little prospect for high growth over the long term, the segment is striving to increase earnings by strategically focusing on markets for non-wristwatch components. More specifically, Star Micronics is applying its precision processing technology to fields where precision components are difficult to manufacture: hard disk drive (HDD) components, medical components, such as dental drills, implant parts and bone screws for bone-setting, automotive components and optical fiber connector parts.

Sales of wristwatch components declined 30.8% year on year to ¥1,249 million (US\$14,034 thousand), as demand failed to recover despite an end to production cutbacks among wristwatch manufacturers in the second half of the year. Regarding non-wristwatch components, while sales of components for car audio equipment produced by our subsidiary in China and of mainstay HDD components eventually recovered, sales ended lower due mainly to declines present at the start of the term. As a result, sales of non-wristwatch components fell 7.3% year on year to ¥2,082 million (US\$23,393 thousand). Non-wristwatch components accounted for 62.5% of segment sales.

Following a review of the Company's production framework, domestic production subsidiary Micro Kikugawa Company was dissolved in October 2009.

As a result of the above, segment sales declined 17.8% year on year, or ¥721 million, to ¥3,331 million (US\$37,427 thousand). The Company posted an operating loss of ¥85 million (US\$955 thousand), largely due to the decline in sales.

OUTLOOK FOR FISCAL 2011

In wristwatch components, sales are expected to decline in step with continued market contraction. Meanwhile, in non-wristwatch components, we anticipate increased sales atop growth in orders for automotive and HDD components.

Consequently, we are projecting segment sales of ¥3,630 million, up 9.0% year on year, and operating income of ¥260 million.