

## **Notice regarding Issuance of Zero Coupon Convertible Bonds due 2021**

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STAR MICRONICS CO., LTD. (the "Company") resolved, at its Board of Directors' meeting held on May 31, 2016, to issue Zero Coupon Convertible Bonds due 2021 (bonds with stock acquisition rights (*tenkanshasaigata shinkabu yoyakuken-tsuki shasai*)) (the "Bonds with Stock Acquisition Rights").

### **Background and Purpose of Issuance of Bonds with Stock Acquisition Rights**

The Company's group has been promoting a global niche strategy as its basic business policy, with the goal of maximizing profitability in growing industries and building a strong presence within its areas of expertise; and it has developed three business segments, namely Special Products Segment, Machine Tools Segment and Precision Products Segment.

Under this business policy, the Company's group will continue working hard to boost our corporate value going forward through establishment of optimal production systems and the development of high-value-added products, active pursuit of sales within emerging country markets as well as European and U.S. markets, and a focus on research and development activities aimed at expansion into new business areas.

In the Special Products Segment, the Company's group is currently building a new business model that utilizes cloud computing, while also working to increase sales of its mPOS (mobile point of sale) printers. In the Machine Tools Segment, the Company's group is proceeding with expansion of its line of fixed-headstock automatic lathes, and aiming to introduce new design and production methods which will accelerate development and reduce production lead time, intended to boost corporate value by enhancing business scope.

Faced with calls for increased capital efficiency and shareholder returns, the Company's group will explore increasing shareholder returns and reducing shareholders' equity through share repurchases, focusing on improving capital efficiency and increasing corporate distributions by promoting business investment and increasing profits while maintaining a sound financial condition.

In line with the above policies, the Company resolved to issue the Bonds with Stock Acquisition Rights in order to fund business investment and to undertake a repurchase of its own shares through a low-cost financing tool with significant debt characteristics.

*This announcement is intended as general information regarding the issuance of convertible bonds by STAR MICRONICS CO., LTD. (the "Company"). This announcement does not constitute an offer of, or the solicitation of an offer to buy or subscribe for the Bonds or the shares of common stock of the Company in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the shares of common stock of the Company issuable upon exercise of the Stock Acquisition Rights (together, the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act). The Securities may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. No public offering of the Securities will be made in the United States.*

## Use of Proceeds

The net proceeds of the issue of the Bonds with Stock Acquisition Rights are estimated to be approximately ¥8 billion, and are expected to be used primarily as follows.

- (1) approximately ¥5 billion by the end of December 2016 as funding for the repurchase of shares by the Company for the purposes of improving capital efficiency;
- (2) approximately ¥2 billion by the end of February 2018 as funding for investment for development of new products such as mPOS (mobile point of sale) printers and development and capital expenditure for serialising fixed-headstock automatic lathes for the purposes of expanding the business scope; and
- (3) approximately ¥1 billion by the end of February 2018 as funding for developmental investments for commercialization of cloud services.

To the extent such repurchase takes place prior to the closing date in respect of the Bonds with Stock Acquisition Rights using cash reserves and borrowings, the Company intends to apply the amount referred to above in respect of the proceeds of the offering of the Bonds with Stock Acquisition Rights to the replenishment of such reserves and repayment of such borrowings. As the Company will repurchase its own shares taking into consideration, among other things, market conditions, the aggregate amount of the repurchase may not reach the amount of proceeds referred to above, in which case, such proceeds may be used as part of funding for capital expenditures or research and development.

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