

Trias Company Memo**1-Apr-2010****(7587 JASDAQ) PALTEK CORPORATION.****Summary of FY12/09 Business Results Follow-Up Interview****“Changes in Japanese Manufacturing: More Global, Open and Responsive”**

Trias Corporation interviewed Tadahito Takahashi, President of PALTEK CORPORATION, hereinafter PALTEK or the Company, to follow up on its FY12/09 Business Results Meeting held on February 10, 2010. The following is a summary of the follow-up interview. For the full report on the Results Meeting, please refer to the [Trias Company Memo on February 12, 2010](#).



Tadahito Takahashi
President of PALTEK

【Changes in Semiconductor Distribution Market】

Influenced by its globalization, Japan’s semiconductor distribution industry appears to be undergoing a structural change. For example, semiconductors produced overseas can now be procured via the Internet. Moreover, large semiconductor suppliers, led by the primarily East Asian mega-electronics manufacturing service (EMS) companies, are emerging worldwide. These firms are beginning resemble the volume discounters competing with one another in Japan’s consumer electronics market. These large suppliers distribute several trillion yen worth of goods and are particularly dominant in the global mass produced digital consumer device

market. In the past, PALTEK was strong in the field of telecommunications-related infrastructure equipment, especially in wireless systems, as well as in industrial machinery applications. But it was a late entrant in the digital consumer business. Meanwhile, next generation power distribution systems such as Smart Grids* are entering the realm of reality and demand for new social infrastructure using wireless technologies is ballooning. Given the need for semiconductor trading firms to revamp traditional business models, combined with the emergence of demand for applications that integrate a host of technologies from the telecom, industrial, consumer electronics fields, PALTEK believes its engineering strength in a broad wireless technology base positions the Company for major growth over the mid-and long-term future.

* Smart Grid: An advanced electricity network that automatically controls the power needs of home appliances to optimize delivery and use of energy.

Now then, what specific directions will PALTEK take for its growth? There are three major possibilities:

1) continue with the conventional pattern of development; 2) transition to a different business entity;

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or 3) form alliances with competitors. In fact, what the Company is likely to pursue is a fourth alternative, which lies somewhere between Option 1 and 2, or an Option 1.5.

First, the Analog Solution business line will be directing PALTEK beyond the traditional Option 1, or conventional pattern of development, toward Option 1.5. One specific step in this evolution is to respond to the strategic price change of National Semiconductor (Ticker Code: NSM / NYSE), a core vendor for PALTEK. Over the past five to six years, NSM had narrowed its lineup to high-value-added products but at the end of 2009, it began offering chips in the low-price, volume market. As a result, PALTEK was able to shore up its business in the digital consumer field, where it has lagged behind its competitors. In addition, by adopting emerging analog vendors in East Asia, the Company will be augmenting its solution proposals to clients that will enhance their competitiveness. It will also have to rethink its sales approach to generate added value. One way to do this is to supply smaller clients with chips in a timely, surgical manner, for example, thereby enhancing PALTEK's response to client needs not in terms of volume but by meeting actual demand.

The next challenge in transitioning PALTEK, or Option 2, toward Option 1.5, is to provide a product design service for clients, which the Company has already begun. In order to make PALTEK stronger technologically as a business entity, it recently launched a strategically vital unit. Among the services this unit began providing from December 2008 (fiscal 2008) is contract product design, design support and the training of client engineers. It has already created a stable and growing client base for medical and security applications. While the unit generated initial-year sales of slightly less than ¥500 million, and fiscal 2009 sales fell to less than ¥400 million in the wake of the Lehman Brothers collapse, the Company expects the figure to exceed ¥500 million in fiscal 2010. The gross profit margin of these services is not only higher than the semiconductor distribution business, the margin has also been improving steadily on an annual basis. At present, as many as five personnel of PALTEK's approximately 50-person PLD (programmable logic IC) solutions engineering team have been assigned to the unit as "engineering producers" on a full-time basis. The unit is networked with some 20 design houses in an engineering partnership. Its goal from now will be to actively develop proprietary boards and modules for such new application fields as the Smart Grid, as well as for medical and broadcasting applications that PALTEK has already been concentrating on from the past. In doing so, the Company aims to develop solutions that, in the past, amounted to several dozen units, to even more comprehensive solutions—that is a major challenge to be tackled.

【Emerging Challenges of Japanese Manufacturers】

With the growing dominance of companies from China, Korea, Taiwan and East Asia in general, concerns over Japan's manufacturing sector has increased. Yet, some domestic makers have begun undergoing positive transformations. For example, NEC Corporation (Securities Code 6701 / TSE 1st

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Section; hereinafter NEC), which is a major PALTEK client, has successfully maintained top share in the global market for *PASOLINK*, an ultra-compact microwave telecom system, for three successive years. *PASOLINK* provides backhaul access links between access points and backbone networks in cellular phone services. It is reported that a cumulative total of over 1.43 million units have been delivered in 140 countries by the end of February 2010. Several PALTEK products are used in NEC's *PASOLINK* systems, which contributed to the Company's telecom-related application sales for fiscal 2009. Sustained demand for *PASOLINK* systems are expected in such overseas markets as India in fiscal 2010.

As seen with NEC, a new wave is beginning to take shape in Japan, one in contradistinction to old, established notions that held that winning in the domestic market was tantamount to winning in the global market, and that superior technology leads to victory over all competitors. Instead, the new thinking is that winning in the global market leads to winning domestically. According to this belief, the real source of competitiveness lies with a dynamic capacity to produce things through a global infrastructure that not only features superior technology and innovation manufacturing, but also an international supply chain and a framework offering comprehensive support services worldwide. NEC has announced that Nobuhiro Endo, who led his company's *PASOLINK* business unit, would assume the post of president as of April 1, 2010. PALTEK President Takahashi personally believes that by appointing an executive who understands the importance of winning on a global stage, NEC is fully prepared to meet the challenge faced by Japanese makers.

Another initiative that domestic makers are proactively adopting in greater numbers is the utilization of global standard technologies, rather than developing closed, proprietary knowhow. PALTEK, for example, handles solutions provided by Wintegra Incorporated, which is headquartered in Texas, USA. A fabless semiconductor maker, Wintegra provides packet processors and software for wireless and wired telecom equipment. In February 2009, NEC adopted its solutions for use in next-generation LTE* base stations.

*LTE (Long Term Evolution): A high performance air interface for mobile telephony, LTE represents the next technological step to HSDPA, the high speed data communications protocol currently adopted in Japan by NTT DoCoMo and Softbank Mobile under W-CDMA, their third-generation (3G) mobile telephony specification. LTE was released by 3GPP, or 3rd Generation Partnership Project, which is a collaborative effort between groups of telecom associations, to establish a globally applicable 3G mobile phone system. Many cell-phone carriers, both in Japan and other markets, have announced they will adopt the standard. In Japan, NTT DoCoMo plans to commercialize the LTE-based service in December 2010, while KDDI plans to roll its version out in 2012.

In response to NEC's globalization and open attitude toward global standards, Kyocera Corporation (Securities Code 6961 / TSE 1st Section; hereinafter Kyocera)—another major PALTEK client which is increasing its share in PALTEK's sales—appears to be accelerating its business development based on

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global standards technologies. PALTEK's Takahashi is impressed by Kyocera's decision-making speed, and believes responsiveness is an indispensable asset in order to win globally.

The transformation taking place at NEC and Kyocera is being driven by the aim to commercialize world-leading LTE services by domestic carriers such as NTT and KDDI. PALTEK's Takahashi believes these and other companies, by pioneering the development of LTE applications, will be targeting the global market as well. He holds high expectations for the future of Japanese companies that have become more global, open and responsive, and insists that PALTEK will keep up with the innovative wave.

【Key Initiative for FY12/10】

Given the aforementioned factors, Takahashi provided an overview of the key initiatives PALTEK will be instituting in fiscal 2010:

- 1) First of all, the Company will need to expand its analog solution product lineup for its existing clients. In doing so, it becomes necessary to create new business approaches, including the securing of licenses, which are basically non-hardware products, and arranging separately procured products into a single package for sale.
- 2) The second initiative is to exploit the emerging market for Smart Energy and Smart Grid technologies, for which PALTEK will focus on developing new solutions.
- 3) Lastly, as a semiconductor trading house, PALTEK aims to develop new business models that take advantage of the growing trend of Web-based chip sales. The Company has already created a client segment known as Broad Base, which supplies products to many smaller businesses and second-tier distributors. It will begin reviewing and revamping its operational processes in order to distribute products to clients on a more responsive manner. Based on the assumption that change is a daily phenomenon, PALTEK will also reexamine all future initiatives, including IT investments.

(This concludes the summary of the follow-up interview.)

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【Reference】 PALTEK CORPORATION (Securities Code: 7587)
Key Financial Data and Business Results (Consolidated)

Key Stock Indicators (Consolidated)	
No. of Shares Issued	Dec.09 11,849,899
No. of Treasury Stock	Dec.09 420,366
Market Value (¥million)	Mar. 31, 2010 3,496
BPS (¥)	Dec.09 691.7
ROE (%) ※1	Dec.09 -0.7
ROA (%) ※2	Dec.09 -0.6
PER (times)	FY12/10 est. n.a
PCFR (times) ※3	Dec.09 -120.5
PBR (times)	Dec.09 0.4
Share Price (¥)	Mar. 31, 2010 295
Unit Share (shares)	Mar. 31, 2010 100
Average Daily Volume (shares) ※4	Mar. 31, 2010 1,300

Key Financial Data (Consolidated)	
Total Assets (¥million)	Dec.09 9,102
Shareholders' Equity (¥million)	Dec.09 7,905
Interest-Bearing Debt (¥million)	Dec.09 0
Equity Ratio (%)	Dec.09 86.8
Ratio of Interest-Bearing Debt (%) ※5	Dec.09 0.0
Free Cash Flows (¥million) ※6	Dec.09 578

※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end

※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end

※3 PCFR=Market Value÷(Current Net Income+Depreciation)

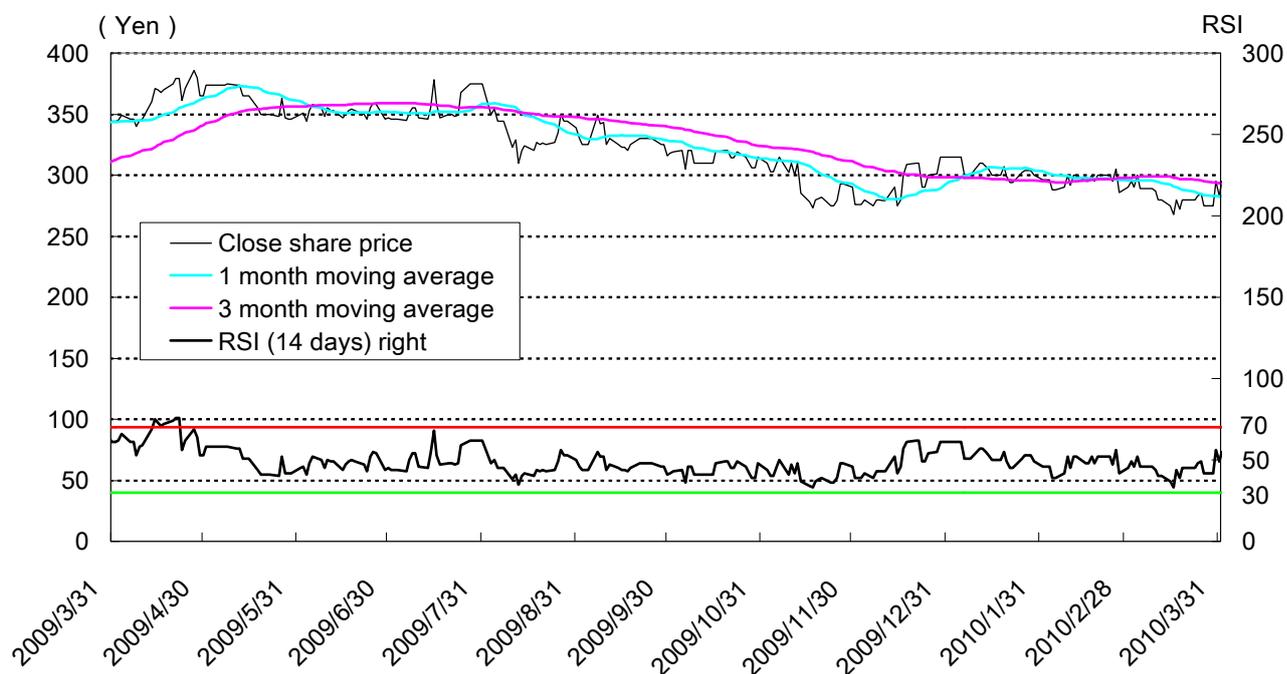
※4 Average Daily Volume=Average Daily Volume for previous 12 months

※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity

※6 Free Cash Flows=Operating CF+Investment CF

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY12/06	14,729	△ 412	△ 42	△ 36	△ 3.10	10.00
FY12/07	20,655	△ 300	△ 222	△ 258	△ 22.10	10.00
FY12/08	20,726	131	286	59	5.10	10.00
FY12/09	14,762	△ 182	△ 103	△ 60	△ 5.17	5.00
FY12/10 Interim fcst.	7,600	30	20	12	1.05	0.00
FY12/10 fcst.	16,800	150	120	72	6.30	5.00

Note: FY12/09 forecasts announced on Feb. 10, 2010

Stock price charts and RSI


Source: Prepared by Trias Corp. with Bloomberg L.P. data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices. In general over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days +averaged share price decline for N days) x100

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