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JASDAQ
PALTEK CORPORATION
A Summary of the FY12/10 Business Results Meeting and Follow-up Interview

On February 9, 2011, PALTEK CORPORATION (hereinafter PALTEK or the Company) held its business results meeting for FY12/10. At the meeting, President Takahashi explained plans to expand existing operations and branch out into new fields, including a full-fledged launch of the smart-grid business, and to fortify its design service business. The following is a summary of the business results meeting and its follow-up interview Trias Corporation conducted regarding these initiatives.

Summary of FY12/10 Consolidated Business Results and FY12/11 Forecasts

Table 1 provides a summary of PALTEK's consolidated business results for FY12/10 and earnings forecasts for FY12/11. (The tables in this Memo have been prepared by Trias Corp. based on data disclosed by PALTEK.)

● 【Table 1】 Consolidated Financial Summary for FY12/10

(¥ million)	FY12/09			FY12/10			FY12/11 Forecast		
	1H	2H	Full Year	1H	2H	Full Year	1H	2H	Full Year
Net Sales	6,672	8,090	14,762	8,021	8,478	16,499	8,000	10,000	18,000
Gross Profit	1,088	1,295	2,383	1,406	1,457	2,864	1,375	1,640	3,015
SG&A Expenses	1,318	1,248	2,566	1,259	1,282	2,541	1,335	1,350	2,685
Operating Income	-230	47	-182	147	175	322	40	290	330
Ordinary Income	-185	82	-103	186	262	448	30	270	300
Net Income	-84	24	-60	95	142	238	18	162	180
YoY Change									
Net Sales	-34.4%	-23.4%	-28.8%	20.2%	4.8%	11.8%	-0.3%	18.0%	9.1%
Gross Profit	-29.3%	-16.1%	-22.7%	29.2%	12.5%	20.2%	-2.2%	12.6%	5.3%
SG&A Expenses	-11.0%	-15.1%	-13.1%	-4.5%	2.7%	-1.0%	6.0%	5.3%	5.7%
Operating Income	-	-35.6%	-	-	272.3%	-	-72.8%	65.7%	2.5%
Ordinary Income	-	-44.2%	-	-	219.5%	-	-83.9%	3.1%	-33.0%
Net Income	-	700.0%	-	-	491.7%	-	-81.1%	14.1%	-24.4%
Composition Ratio									
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Profit	16.3%	16.0%	16.1%	17.5%	17.2%	17.4%	17.2%	16.4%	16.8%
SG&A Expenses	19.8%	15.4%	17.4%	15.7%	15.1%	15.4%	16.7%	13.5%	14.9%
Operating Income	-3.4%	0.6%	-1.2%	1.8%	2.1%	2.0%	0.5%	2.9%	1.8%
Ordinary Income	-2.8%	1.0%	-0.7%	2.3%	3.1%	2.7%	0.4%	2.7%	1.7%
Net Income	-1.3%	0.3%	-0.4%	1.2%	1.7%	1.4%	0.2%	1.6%	1.0%

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In FY12/10, the Company recorded brisk sales of its mainstay industrial PLD* applications, which include those used in broadcasting, as well as medical and measurement instruments. Sales of ASSP** for use in broadband communications devices, smart phone touch-pads, tablet PCs and other key systems performed equally well. As a result, consolidated net sales grew 11.8% on a year-on-year basis. Operating, ordinary and net incomes all returned to profitability versus the previous year's losses as PALTEK's gross profit margin improved through sales growth in industrial solutions, which generates comparatively high gross profit, as well as lower procurement costs due to the yen's appreciation. The Company's rationalization effort that lowered its break-even point was another contributor. It also posted a foreign exchange gain of ¥132 million from forward exchange contracts.

● Consolidated Net Sales by Solution

(¥ million)	FY12/09			FY12/10			FY12/11 Forecast		
	1H	2H	Full Year	1H	2H	Full Year	1H	2H	Full Year
PLD	2,067	2,624	4,692	2,640	3,309	5,950	3,400	4,000	7,400
Analog	1,432	1,585	3,018	1,592	1,638	3,231	800	1,050	1,850
ASSP	2,494	3,041	5,535	2,870	2,647	5,518	2,950	3,700	6,650
Memory	677	838	1,516	918	882	1,800	850	1,250	2,100
Total	6,672	8,090	14,762	8,021	8,478	16,499	8,000	10,000	18,000
YoY Change									
PLD	-22.7%	-12.0%	-17.1%	27.7%	26.1%	26.8%	28.8%	20.9%	24.4%
Analog	-58.4%	-46.2%	-52.7%	11.2%	3.3%	7.1%	-49.7%	-35.9%	-42.7%
ASSP	-25.6%	-18.1%	-22.3%	15.1%	-13.0%	-0.3%	2.8%	39.8%	20.5%
Memory	-3.8%	-8.3%	-6.4%	35.6%	5.3%	18.7%	-7.4%	41.7%	16.7%
Total	-34.4%	-23.4%	-28.8%	20.2%	4.8%	11.8%	-0.3%	18.0%	9.1%
Composition Ratio									
PLD	31.0%	32.4%	31.8%	32.9%	39.0%	36.1%	42.5%	40.0%	41.1%
Analog	21.5%	19.6%	20.4%	19.8%	19.3%	19.6%	10.0%	10.5%	10.3%
ASSP	37.4%	37.6%	37.5%	35.8%	31.2%	33.4%	36.9%	37.0%	36.9%
Memory	10.1%	10.4%	10.3%	11.4%	10.4%	10.9%	10.6%	12.5%	11.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

*PLD: Programmable Logic Device

**ASSP: Application Specific Standard Product

It should be noted that the Company's balance sheets were impacted by a smart phone chip development project that was outsourced. PALTEK not only had to post advance payment and receipts in order to secure fabrication capacity at an Asian fab for the project, it also incurred a larger consumption tax payable. As for cash flows, although pretax income rose on y/y basis, operating cash flows took a significant hit due to increases in inventory assets, accrued revenue, advance payments and consumption tax receivables. In addition, investing cash flows also declined after the Company set up an in-house IT infrastructure. As a result, free cash flows fell to negative ¥189 million, down ¥769 million from the previous year.

One of the Company's milestone events of FY12/10 was the termination of the agency contract with

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National Semiconductor Corporation (hereinafter NSC), a major analog chip vendor, on March 31, 2011. Although PALTEK began full-scale transactions with several new suppliers, chiefly in East Asia, in April, its analog business is expected to contract to half that posted a year earlier. On a full-year basis, the Group's net sales are expected to climb 9.1% y/y as communications and industrial solutions will continue to fare well in the PLD segment, while the ASSP will see the launch of new products for key smart phone components. On the other hand, personnel costs, which had been held in check in the past, are projected to rise slightly as a result of human resources investment required to reinforce a new operation slated to start up in fiscal 2011. The upshot, then, is that the Company's operating income margin will fall 1.5% to 0.5% for 1H, and 1.8% for the full year, or a decline of 0.2%, as the launch of volume production projects in 2H is expected to squeeze gross margins.

New Initiatives Based on Technical Expertise

PALTEK has had to face major changes in its operating environment over the past several years. In March 2006, for example, the Company terminated its distributing agent contract—which it entered into in 1985—with Altera Corporation, one of the world's largest PLD makers. Altera terminated the contract because it adopted a different Japan strategy. Although PALTEK entered into an agency contract with another leading PLD maker, Xilinx Inc., in January 2006, PLD sales plummeted from ¥12.67 billion posted in fiscal 2005 to just ¥3.9 billion in fiscal 2007, when the change-over was completed with Xilinx. PALTEK's PLD operations have gradually recovered since then, with sales for the current year projected to reach ¥7.4 billion.

As stated earlier, the Company also ended its distribution agent contract with NSC in March 2011. Transactions with NSC grew when PALTEK acquired the California-based firm's sales subsidiary in Japan, NS Microelectronics, Co., Ltd., in May 2006 as part of its effort to bolster its system solution business which integrated analog and digital solutions. Sales of analog chips peaked at ¥9.78 billion in fiscal 2007, which included NSC sales held by Osaka-based Alpha Electronics Inc., which the Company also acquired and absorbed into its Group. However, the Company's NSC transactions dwindled considerably from fiscal 2008 as the U.S. maker's strategy to provide high-value-added products did not match the low-end, high-volume needs of the Japanese market. The slowdown in domestic demand in mobile devices and the consumer electronics market became another drag. NSC terminated its contract with PALTEK as part of its strategy to narrow down distribution agents in such a market environment.

Faced with these challenges from fiscal 2006, PALTEK began identifying areas to focus on by solution among its existing operations from fiscal 2005 [see Table 3]. By adopting this strategy,

the Company plans to further elevate its existing technical expertise in communications applications, mainly in infrastructure equipment, and industrial solutions. It will also exploit new, cost-effective products made by East Asian manufacturers to boost competitiveness of client makers in the consumer electronics components market, where the Company has traditionally struggled to gain traction.

● **【Table 3】 Focus on Future in Existing Businesses**

Application/ Solution	Communication Infrastructure	Industrial				Consumer/ Electronics	
		Broad- casting	Computer	Medical	Measure- ment	General	Portable Terminals
PLD	○	○		○	○		
Analog		○	○	○	○	○	
ASSP	○	○	○				○
Remarks			Server/ Storage			Expansion of New Product Lines	Key Equipment for Smart Phone

PALTEK's design service business was launched in fiscal 2007 and it is expected to generate net sales of ¥700 million in fiscal 2011 versus ¥527 million in the preceding year, with a gross profit margin projected to exceed 30%. This new segment will utilize a new business model that generates cash flows from its technical prowess, which—while using the Company's existing business infrastructure—previously could not be exploited to generate income in the Company's traditional semiconductor trading operations. Looking ahead, PALTEK plans to increase the number of outsourced contracts for medical, energy and security solutions it secures, while bolstering not only hardware designs but also software development to cater to an increasingly expanding software market.

Full-Scale Launch of Smart Grid Business

The meltdown of nuclear reactors at Tokyo Electric Power Co., Ltd.'s nuclear power complex in Fukushima prefecture caused by the March 11 quake and tsunami, followed by suspension of operations of the Hamaoka nuclear power complex by Chubu Electric Power Co., Ltd., has led to a major review of the nation's energy policy and infrastructure.

In June 2010, the government decided to revise the basic energy program, which the Cabinet approved. The revision was the second time the program had been revised since October 2003. Among the newly incorporated amendments was the attainment of economic growth centered around energy and structural reforms to the energy industry to the so-called "3E's" of Japan's basic

energy policy—energy security, environmental protection to combat global warming and efficient power generation.

The newly revised program calls for the development and establishment of a smart grid network which can communicate interactively with consumers, and the installation of smart meters to all customers in principle as soon as possible by the 2020s—but with the caveat that careful consideration must be paid to cost performance.

While national energy policy has evolved in this aforementioned manner, the general consensus was that a smart grid network, including the introduction of smart meters, was still a distant prospect. This was because considerable resistance to the concept existed among energy producers and consumers; the former fought to retain a business infrastructure in which people are employed to check power meters, for example, while the latter refused to abandon the widespread misconception that electricity will always be available and supplied. The fact was, Japan had lagged behind the major advanced countries in terms of policy attainment.

However, the March 11 disaster has created an electric power shortage that far exceeded any contingency, a shortage that is expected to continue for some time. While a return to thermal power generation, including the restart of previously shuttered plants, has begun to replace the shortfall created by the contracting dependence on nuclear power, the transition to natural and renewable energy sources such as solar power is expected to accelerate from now.

On the supply side, energy providers will become increasingly reliant on carbon dioxide capture and storage (CCS) systems, as well as more efficient thermal power generation to address the needs for greenhouse emissions control and improved plant efficiency. As for renewable energy, the imperative is to operate solar, wind and geothermal power generation on an integrated basis, and a system to efficiently and economically store the electricity they generate.

As for energy consumers, the trend of manufacturers to shift to in-house power generation will accelerate, for instance. Moreover, energy conservation measures are being adopted in offices, retail outlets and homes. Demand for energy saving solutions—from LED and organic EL systems to non-gasoline vehicles, products which higher costs have proven to be an impediment for widespread adoption in the past—is projected to boom to cope with Japan's structural electric power shortage.

Given the dramatic transformation in the challenges and outlook of both energy supplier and consumer, the possibility of establishing the infrastructure for new energy sources based on renewable power generation and electric power storage, has rapidly becoming a reality. This is evident with the electric power storage industry: where it was once mired in a vicious cycle of poor

economies of scale, high prices and arrested dissemination, this cycle is now in the process of being severed. The factors mentioned above have all contributed to drive forward Japan's smart grid program, which once was on the verge of stalling out.

Since fiscal 2010, PALTEK has moved away from a business model that is easily influenced by the distribution strategies of the largest global semiconductor vendors, the Company's core suppliers. At the same time, with the aim of better utilizing its considerable technology assets, the Company has entered the smart grid business, which is totally different from its previous operations.

A smart grid is a new multifunctional network in which both supplier and consumer of electric power can control and optimize flow, with smart meters and software embedded into the grid. The smart grid boasts four major advantages: 1) It conserves energy on the consumer side through a "peak shift," which shifts part of the electric power generated at night to meet the power consumption demand that peaks during the day; 2) it incorporates renewable energy sources; 3) it facilitates the infrastructure required to support eco-cars; and 4) it is superior in controlling blackouts. On the other hand, the biggest issue is security. Advanced communications systems and other technologies are necessary to build a smart grid. For PALTEK, which has long built up an extensive base of communications technology expertise, the smart grid business offers an ideal opportunity to exploit.

In the previous term, PALTEK began to collect and collate information on smart grids, an area which it had no previous expertise or experience, by opening booths at relevant exhibitions and organizing seminars. Concurrent with this effort, the Company began to develop smart energy solutions, particularly from the second half of this fiscal year [see Table 4]. For example, PALTEK entered into a contract with Spain's ADD semiconductor Co., Ltd. (hereinafter ADD semi) in June 2010 to act as exclusive distributor of the latter's products in Japan. ADD semi supplies high-performance solutions for smart meters and power line communications (PLC). It was recruited by Iberdrola, the largest electric power company in Spain, to participate in the development of Power line Intelligent Metering Evolution, or PRIME, as a global standard.

● Smart Grid Businesses

Smart Energy Solution	Direction for Development
Low-speed PLC of ADD Semiconductor Co., Ltd. in Spain	Supply technology based on PRIME standard proven smart meter in Europe
Next-generation management system for factories	Supply flexible electronics manufacturing service (EMS)
Smart house wireless network solution	
Solar generation real-time power controller	Development of original products based on model-based design kit

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In order to gain widespread acceptance of this open standard, a PRIME initiative alliance was established and numerous European technology firms have since come aboard. As a result, 250 million homes will be equipped with PRIME standard smart meters by 2020. Armed with its alliance with ADD semi, which serves as a driving force in the adoption of the PRIME standard, PALTEK aims to develop cost effective and highly competitive solutions.

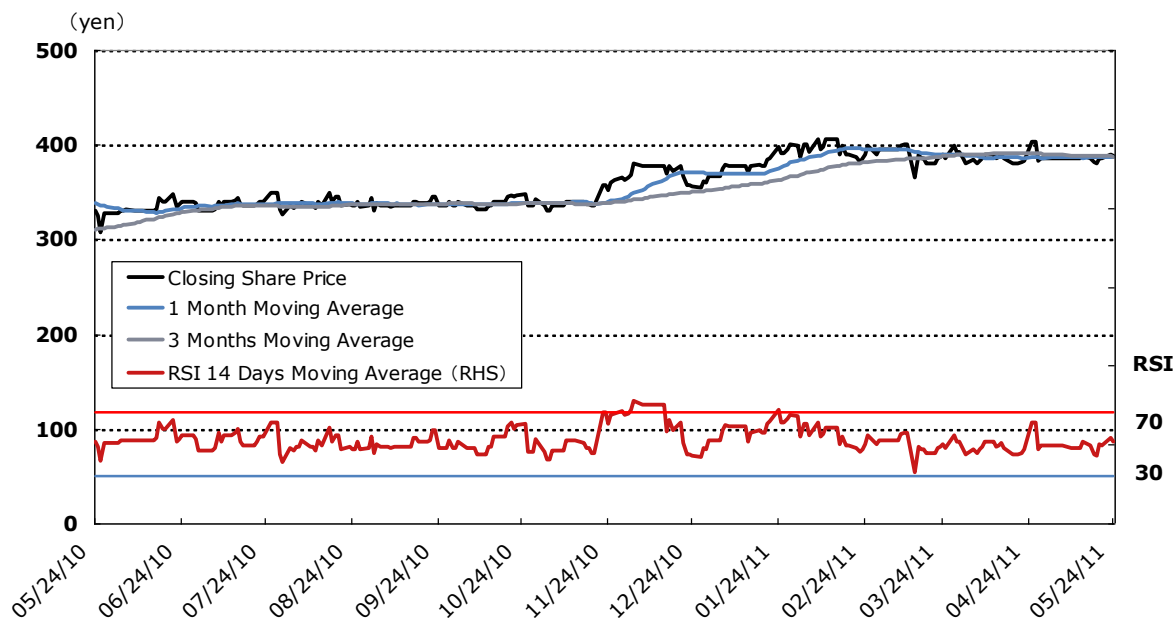
While progress on PALTEK's smart grid business will be monitored in the Trias Corp. Follow-Up Interview for the first quarter of this year, it should be noted that the Company's other development projects should prove of great interest as well. 📄

Reference
● Key Financial Data and Business Results (Consolidated)

Key Stock Indicators			Key Stock Indicators		
No. of Shares Issued	Dec. 2010	11,849,899	Total Assets (¥million)	Dec. 2010	9,774
No. of Treasury Stock	Dec. 2010	420,662	Shareholders' Equity (¥million)	Dec. 2010	8,084
Market Value (¥million)	2011.5.24	4,598	Interest-Bearing Debt (¥million)	Dec. 2010	0
BPS (¥)	Dec. 2010	707.3	Equity Ratio (%)	Dec. 2010	82.7
ROE (%)	Dec. 2010	2.9	Ratio of Interest-Bearing Debt (%)	Dec. 2010	0.0
ROA (%)	Dec. 2010	2.4	Free Cash Flows (¥million)	Dec. 2010	-189
PER (times)	Dec. 2011 Fcst.	24.6	Notes: ROE=Current Net Income÷Shareholders' Equity		
PCFR (times)	Dec. 2010	17.2	ROA=Current Net Income÷Total Assets		
PBR (times)	Dec. 2010	0.5	PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	2011.5.24	388	Ave. Daily Volume=ADV for the last 12 months		
Unit Share (shares)	2011.5.24	100	Ratio=Interest-Bearing Debts÷Shareholders' Equity		
Average Daily Volume (shares)	2011.5.24	3,047	Free Cash Flows=Operating CF+Investment CF		

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS(¥)	DPS(¥)
FY12/07	20,655	-300	-222	-258	-22.13	10.00
FY12/08	20,726	131	286	59	5.07	10.00
FY12/09	14,762	-182	-103	-60	-5.17	5.00
FY12-10	16,499	322	448	238	20.84	7.00
1H FY12/11 fcst.	8,000	40	30	18	1.57	0.00
FY12/11 fcst.	18,000	330	300	180	15.75	5.00

Note: FY12/10 forecasts announced on Feb 9, 2011

● Stock Price Charts and RSI


Source: Prepared by Trias Corp. with Bloomberg 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 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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