

7587
JASDAQ
PALTEK CORPORATION
**Summaries of Business Results for the Second Quarter of
Fiscal Year ending December 31, 2011**

On August 8, 2011, PALTEK CORPORATION (hereinafter PALTEK or the Company) held its Business Results Meeting for Q2 FY12/11. The following is a summary of the meeting and its follow-up interview Trias Corporation conducted with President Tadahito Takahashi.

Consolidated Business Results for Q2 FY12/11

As seen in Table 1, consolidated net sales and incomes for 1H FY12/11 increased on a year-on-year (y/y) basis. On a quarterly basis, however, Q2 showed net sales and income declines compared to Q2 FY12/10, the result of a foreign exchange loss of ¥54 million due to the yen's appreciation and the return of personnel costs and SG&A expenses, which decreased last year, back to their former levels. The full-year forecast was revised on July 26 to account for the impact of the March 11 calamity. Net sales were revised slightly downward, from ¥18.2 billion to ¥18.0 billion, due to stalled semiconductor related operations in March and April. On the other hand, PALTEK did not revise its projections for operating and other incomes because the overall business outlook remains solid.

● **Table 1: 1H FY12/11 Consolidated Business Results Summary**

(¥ mn)	FY 12 / 10			FY 12 / 11 Fcst		
	1H	2H	Full Year	1H	2H	Full Year
Net Sales	8,021	8,478	16,499	8,000	9,630	18,000
Gross Profit	1,406	1,457	2,864	1,375	1,640	3,120
SG&A Expenses	1,259	1,282	2,541	1,335	1,350	2,679
Operating Income	147	175	322	40	290	440
Ordinary Income	186	262	448	30	270	440
Net Income	95	142	238	18	162	180
Y/Y Change						
Net Sales	20.2%	4.8%	11.8%	-0.3%	13.6%	9.1%
Gross Profit	29.2%	12.5%	20.2%	-2.2%	12.6%	8.9%
SG&A Expenses	-4.5%	2.7%	-1.0%	6.0%	5.3%	5.4%
Operating Income	-	272.3%	-	-72.8%	65.7%	36.6%
Ordinary Income	-	219.5%	-	-83.9%	3.1%	-1.8%
Net Income	-	491.7%	-	-81.1%	14.1%	-24.4%
Ratio to Net Sales						
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Profit	17.5%	17.2%	17.4%	17.2%	17.0%	17.3%
SG&A Expenses	15.7%	15.1%	15.4%	16.7%	14.0%	14.9%
Operating Income	1.8%	2.1%	2.0%	0.5%	3.0%	2.4%
Ordinary Income	2.3%	3.1%	2.7%	0.4%	2.8%	2.4%
Net Income	1.2%	1.7%	1.4%	0.2%	1.7%	1.0%

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility

Current Business Lines

Current Situation

The PLD Solutions unit performed well, led by industrial applications, and the results were better than the Company's initial forecast. Another contributing factor to Q2 sales was that applications that consume considerable time from design to development—which include industrial, medical, telecommunications, measuring equipment and factory automation projects—have now entered the commercial production phase.

The Analog Solution business did not fare as well, with Q2 net sales decreasing by ¥587 million, to ¥96 million, compared to Q1 due to the termination of PALTEK's contract with National Semiconductors in March. However, application specific semiconductor products (ASSP) did perform well, driven by broadband and smart phone demand.

● **Table 2: Quarterly Consolidated Net Sales by Solution**

(¥ mn)	FY12/10				FY12/11	
	Q1	Q2	Q3	Q4	Q1	Q2
PLD	1,291	1,349	1,613	1,695	1,598	2,172
Analog	733	858	795	683	683	96
ASSP	1,353	1,516	1,450	1,196	1,329	1,736
Memory	406	511	447	435	334	419
Total	3,785	4,236	4,306	4,171	3,945	4,424

From 1H FY12/11, the Company began transactions with two new vendors, California-based Linear Technology Corporation (NASDAQ LLTC; hereinafter LTC) and NXP Semiconductors (NASDAQ NXPI; hereinafter NXP) based in the Netherlands.

LTC is a unique and high-performance analog chipmaker. It does not depend on foundries and fabricates its entire product line at its own production facilities. Having adopted a regime that allows the redistribution of production of the same product in-house, even if one plant cannot manufacture that product, it can be made at another plant. Given this capability, LTC is particularly strong in the industrial equipment field, which makes it compatible with PALTEK's strength as well.

NXP was spun off from Philips (Royal Philips Electronics; PHIA/Euronext and PHG/NYSE) and offers a broad range of products, including microprocessors, as well as high-end analog and logic chips. It also sells semiconductors catering for such commercial products as ID certification systems, wireless, lighting systems, industrial equipment, medical instruments and cell phones, as well as PC applications in addition to LED lighting systems. By working with NXP, PALTEK will be able to propose solutions to meet client needs by offering interface and/or analog products, led primarily by microprocessors installed with ARM core processors. In addition, the Company is now capable of

proposing system-level solutions with a high-added-value quotient by combining PLD and/or ASSP chips.

Future Direction

With regards to its current business line, while PALTEK will continue to maintain the business regime that centers on Xilinx, Inc.'s FPGA, the Company's new ties with LTC and NXP will prove to be significant. PALTEK previously handled niche semiconductor products of foreign venture vendors, but because LTC and NXP are major global players as seen in Table 3, the Company, by leveraging its engineering expertise, plans to move into new markets in Japan. Over the next several months, PALTEK expects that its arrangement to the two new vendors will yield more specific initiatives. For the time being, however, the Company's core product lines will increase from two to three; in addition, PALTEK will be able to propose a broader range of engineering solutions by combining FPGA with new products from the vendors, which should serve to drive further growth for its existing business units.

● Table 3: Business Performances of LTC and NXP

LTC				
(US\$ mn)	Net Sales	Operating Income	Net Income	EPS (US\$)
FY6/10	1,170	563	361	1.58
FY6/11	1,484	767	580	2.50

NXP				
(US\$ mn)	Net Sales	Operating Income	Net Income	EPS (US\$)
FY12/09	3,519	-931	-153	-0.78
FY12/10	4,402	273	-406	-1.99

Another operation that will allow PALTEK to convert its engineering strength into viable cash flow is its Design Service business. This business engages in customized product development designs for clients based on their respective needs and FY12/11 sales is expected to reach ¥700 million—which the Company plans to increase to ¥1 billion or more in the near future. The unit is currently in the process of securing outsourced contracts for industrial applications from a major optical instrument maker and other clients. And because it is thought that the unit can deliver a gross profit margin of some 20%, the Company projects that its Design Service business will be a major contributor in improving profitability as sales begins to grow.

New Businesses

Smart Grid* Business

Following the March 11 calamity, demand for smart grid technology has intensified. PALTEK has

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility

engaged in the development of “smart meter” technologies for the past several years and is now moving to convert its smart grid program into a full-fledged business. In specific terms, this entails the development of smart meter and smart energy application solutions, but it will actually encompass a far broader range of elemental technology development. It will not only cover semiconductors, but also modules and entire systems that integrate multiple elemental technologies, including software development via the Company’s engineering strengths. Launching this new business poses a major challenge for PALTEK, compelling it to transition away from its traditional business model as a semiconductor wholesaler.

As seen in Table 4, PALTEK has pushing forward development of both wired and wireless solutions based on its core competence in telecommunications engineering. In its wired operations, the Company has adopted power line communications (PLC) technologies brought in from ADD Semiconductor, a leading-edge chipmaker based in Spain, over the past few years. PALTEK is proposing a PLC-based system to conserve energy by dimming the brightness of fluorescent lights in residential quarters.

As for its wireless operations, the Company has engaged in a factory automation project in collaboration with iD Corporation, headquartered in Hokkaido, and Tohoku University. The project, which the Ministry of Economy, Industry and Trade selected to fund from fiscal 2010, is developing a next-generation energy management system for factories based on wireless sensor network, and has reached the feasibility phase at this time. When realized, the system will deliver real-time management of energy consumption in tandem with renewable energy supply at production sites.

PALTEK has also begun to provide a system that enables visualization of office equipment power usage, not merely on the basis of distribution or switchboard systems, but one that extends to the individual unit level.

● **Table 4: PALTEK’s Smart Energy Solutions**

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

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility

In addition to the above, PALTEK took part in a smart house project that began last year in Fukuoka City; moreover, the Company decided to take part as a core member in a smart community project slated to commence in Yokohama City this year. Based on the experience accrued through these projects, PALTEK is initiating individual projects with various private sector enterprises from business domains such as air conditioning, acoustic control and construction that were previously far beyond the Company's corporate experience. It is also working to collect and collate the needs of end-users and develop specific solutions to meet their needs.

PALTEK aims to reinforce its existing business lines by moving into new growth markets through an engineering base that it has developed primarily in FPGA engineering and telecomm technologies, as well as through its push into the smart grid business—initiatives that are likely to drive the Company's evolution over the next several years and beyond.

***A smart grid** is a new, multifunctional network in which both supplier and consumer of electric power can control and optimize flow through smart meters and software embedded into the grid. The smart grid boasts major four advantages: 1) It conserves energy on the consumer side through "peak shifting," which transfers 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 promotes the infrastructure required to support "green" eco-cars; and 4) it is superior in curtailing and circumventing blackouts. On the other hand, the biggest issue is security. Advanced communications systems and other technologies are necessary to establish a smart grid. For PALTEK, which has built up an extensive base of communications technology expertise over the years, the smart grid business offers an ideal opportunity to exploit.

Q&A Session

Q1: Regarding sales from medical applications that PALTEK has among its industrial application business, the development of products that began from about the time your distribution agreement started with Xilinx, is reaching the volume production phase. What is the breakdown of sales in your industrial equipment operation by application?

A1: Our industrial equipment operation can generally be divided into four categories—medical instruments, measurement and testers, factory automation control systems, and broadcasting equipment. Of these, medical instruments, measuring instruments, and measuring instruments for telecom systems have accounted for the major share of sales in the second quarter.

Q2: What is the general ratio that these four categories comprise?

A2: While the ratio fluctuates over time, medical instrument makers have been stepping up production at this time. Also, because regulatory changes in protocols and other changes have taken a considerable toll on our telecom equipment sales, the ratio differs from time to time. Broadly speaking, we expect medical instrument sales to comprise 30-40% of sales in 1H, while LTE-related telecom equipment sales will account for less than 20%.


Q3: You stated that PALTEK's full-year business forecast is conservative because it incorporates audit and quality verification results. Are these for the new vendors and new products or your existing product line?

A3: They are basically for new products and vendors. With regards to our ties to the new vendors, from whom we procure products, our domestic client makers have to visit their plants overseas to verify the quality of their products. The earthquake in March caused delays in such qualification process. That time lag is significant.

Q4: I understand that the approval/verification processes for sophisticated applications are quite strict and demanding. Is that what's happening now?

A4: We have had many clients who have bought high-end products in the past, but given the demand for cost competitiveness, there is a growing need for products that cost less and are of better quality. For clients with such needs, the tendency is for them to carry out their approval/verification processes more thoroughly.

Q5: What are LTC's strengths?

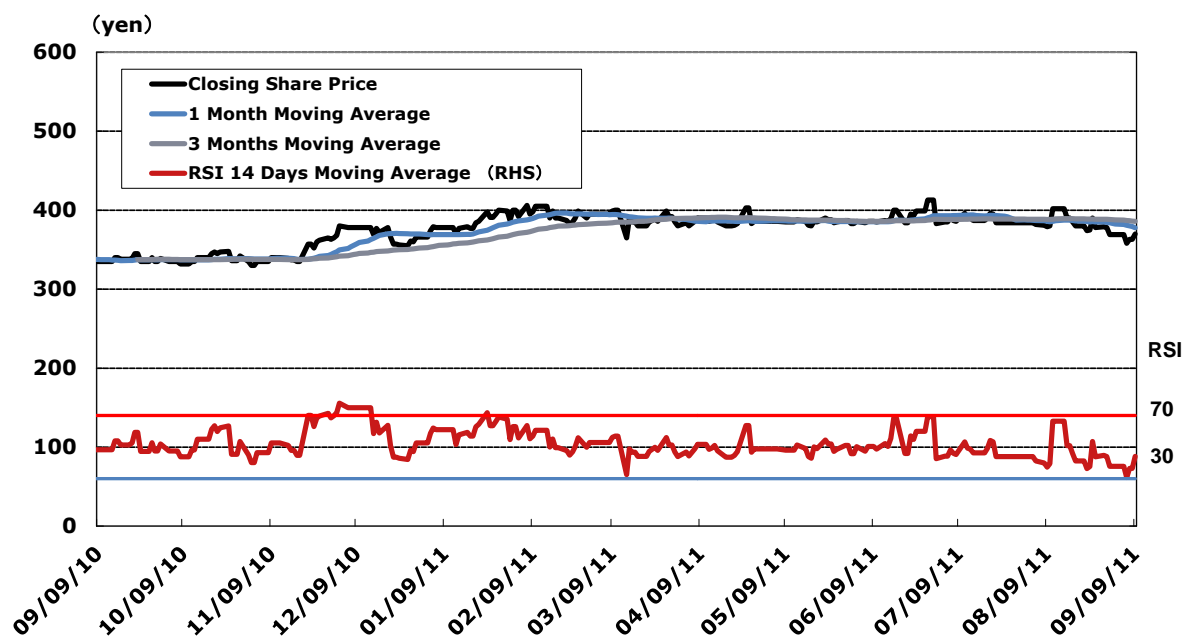
A5: LTC possesses expertise in a broad array of high-performance analog technologies, we are especially keen to target industrial and medical applications. 

Reference
● Key Financial Data and Business Results (Consolidated)

No. of Shares Issued	Jun. 2011	11,849,899	Total Assets (¥mn)	Jun. 2011	10,835
No. of Treasury Stock	Jun. 2011	420,662	Shareholders' Equity (¥mn)	Jun. 2011	8,053
Market Value (¥mn)	Sept.9, 2011	4,384	Interest-Bearing Debt (¥mn)	Jun. 2011	1,100
BPS (¥)	Jun. 2011	704.7	Equity Ratio (%)	Jun. 2011	74.3
ROE (%)	Jun. 2011	0.7	Ratio of Interest-Bearing Debt (%Jun. 2011)	Jun. 2011	13.7
ROA (%)	Jun. 2011	0.5	Free Cash Flows (¥mn)	Jun. 2011	-1,724
PER (X)	Dec. 2011 fcst	19.6	Notes: ROE=Current Net Income÷Shareholders' Equity		
PCFR (X)	Jun. 2011	63.5	ROA=Current Net Income÷Total Assets		
PBR (X)	Jun. 2011	0.5	PCFR=Market Value÷(Current Net Income+Depreciation)		
Share Price (¥)	Sept.9, 2011	370	Ave. Daily Volume=ADV for the last 12 months		
Unit Share (shs)	Sept.9, 2011	100	Ratio=Interest-Bearing Debts÷Shareholders' Equity		
Average Daily Volume (shs)	Sept.9, 2011	2,845	Free Cash Flows=Operating CF+Investment CF		

Consolidated (¥mn)	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	8,370	150	170	54	4.77	0.00
FY12/11 fcst	18,000	440	440	216	18.90	5.00

Note: FY12/11 forecast announced on July 26th, 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.
 $RSI = \frac{\text{averaged share price appreciation for N days}}{\text{averaged share price appreciation for N days} + \text{averaged share price decline for N days}} \times 100$

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.