

Trias Company Memo 2010-02-12



**PALTEK (7587 JASDAQ) PALTEK Corporation**

**Summary of Business Results Meeting for the Fiscal Year ended December 31, 2009**

On February 10<sup>th</sup>, 2010, PALTEK Corporation (hereinafter PALTEK or the Company) held its Business Results Meeting for the fiscal year ended December 31, 2009. The following is a summary of the meeting:

**[Attendees of the Meeting]**

Tadahito Takahashi, President; Ikuko Tokunaga, Director; Hiroki Inoue, GM of Operational Services Division

**[Outline of FY09 Results]**

In Fiscal Year 12/09, consolidated sales declined by 28.8% and the Company posted an operating loss of ¥182 million. The business and earnings environment in which PALTEK operated was extremely harsh, particularly in the first quarter. Given the manifold challenges it faced, the Company carried out a management shakeup and instituted a series of restructuring initiatives that included the operational integration of affiliated companies scattered in Tokyo and Osaka to cut costs. That led to an improved breakeven point of monthly sales, lowering it from ¥165 million to ¥135 million per month. As a result of these moves, together with a recovery in total revenues, PALTEK returned to profitability in the second half. As for the breakdown of sales by solution/application, PLDs\*—which are used in tele-communications base stations and industrial equipment—and ASSPs\*—which are used in broadband networks and WiMAX—have been recovering since the 2H, while analog solution devices remain sluggish. Meanwhile, gross profit margins of the Analog Solution business improved, lifted by the decrease in the burden of high-volume, low-profit orders. Sales for the Memory Solution business reached the same volume of the previous fiscal year, supported by stable demand for car navigation systems.

\*PLD: Programmable Logic Device; \*\*ASSP: Application Specific Standard Product

Table 1: Quarterly Sales by Solution

(¥ Million)	FY12/08		FY12/09				YoY change	FY12/09 Full year
	3Q	4Q	1Q	2Q	3Q	4Q		
PLD	1,403	1,580	1,169	897	1,226	1,398	-11.5%	4,692
Analog	1,631	1,313	661	770	776	809	-38.4%	3,018
ASSP	1,805	1,906	1,122	1,372	1,542	1,498	-21.4%	5,535
Memory	482	431	315	362	388	449	4.2%	1,516
Total	5,323	5,231	3,269	3,403	3,934	4,155	-20.6%	14,762

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Table 2: Quareterly Sales by Application

(¥ Million)	FY12/08		FY12/09				YoY change
	3Q	4Q	1Q	2Q	3Q	4Q	
Communication	1,824	1,610	770	962	1,100	1,231	-23.5%
Industrial	1,508	1,677	1,159	975	1,193	1,428	-14.8%
Consumer	911	1,007	540	718	767	485	-51.8%
Computer	298	286	222	220	228	280	-2.1%
Others	780	650	576	525	644	729	12.2%
Total	5,323	5,231	3,269	3,403	3,934	4,155	-20.6%

### [Forecast for FY2010]

Based on the projection that sales of 1H/FY10 remain level with that of the 2H of FY09, and that growth will recover moderately over the 2H, the Company expects sales for FY10 to increase by 13.8% year-on-year to ¥16.8 billion. Assuming that gross profit margins remain comparable to that posted in FY09, PALTEK sees to achieve an operating profit of ¥150 million in FY10. In addition, the Company plans to pay a dividend of ¥5 per share for FY10, the same as that paid out in FY09.

Table 3: Consolidated Business Results Summary for FY12/09

(¥ Million)	FY12/08		FY12/09		YoY Change		FY12/10 Forecast	
	Value	% of sales	Value	% of sales	Value	%	Value	% of sales
Sales	20,726	100.0%	14,762	100.0%	(5,964)	-28.8%	16,800	100.0%
Gross Profit	3,083	14.9%	2,383	16.1%	(700)	-22.7%	2,710	16.1%
SG&A	2,952	14.2%	2,566	17.4%	(386)	-13.1%	2,560	15.2%
Operating Income	131	0.6%	(182)	-1.2%	(313)	n.a.	150	0.9%
Ordinary Income	286	1.4%	(103)	-0.7%	(389)	n.a.	120	0.7%
Net Income	59	0.3%	(60)	-0.4%	(119)	n.a.	72	0.4%

Note: Forecast for FY12/10 is that announced by PALTEK as of Feb. 10, 2010.

### [Strategy for the Future]

Although Japanese semiconductor makers were leaders in the commodity chip market in the past, they have ceded that position today to companies in Korea and Taiwan. Given this situation, PALTEK's role going forward as a "semiconductor trader" is to support its Japanese customers in both the development and manufacturing of high-end, highly advanced products in Japan. While continuing to provide design services for such traditional areas as the telecommunications, medical and security-related industries, the Company will be stepping up its design service effort in such new growth markets as Smart Energy.\*

Among PALTEK's priorities this year and beyond are next-generation telecom services. The Company will supply solutions for Long Term Evolution (LTE), a new mobile telecom service that NTT DoCoMo plans to launch later this year, as well as for WiMAX networks, following these moves by expanding its business to related areas. The Company sees Smart Energy market as another lucrative opportunity to exploit. Although Japanese companies are losing ground in the digital consumer electronics market, they stand to gain considerable traction in Smart Grid\*\* related solutions. PALTEK

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provides robust product lineups, including those built by Digi International, a leader in machine-to-machine wireless communications, and plans to reinforce its solution business in these new growth markets.

\*Smart Energy: Next-generation energy resources, based on cost effective, by-demand sustainability.

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

#### [Q&A]

##### **Q1: How much in sales will Smart Grid/Smart Energy generate for PALTEK in FY10 and beyond?**

While the business will remain modest for FY10, many of our customers are keen on the market potential for smart systems and we have already begun sample shipments of some products. An estimated 200 million units of Smart Meters\* will be sold in 2014. There are, however, some who argue that such systems are unnecessary in Japan due to the fact that its power distribution network is already highly efficient. PALTEK disagrees, primarily because we believe the “reverse power flow”\*\* problem will become a major issue as solar energy and wind power generation gains greater traction in the years ahead. Smart Grid can and will resolve the problem. Japanese companies appear to be lagging in Smart Meter know-how, with that possessed by U.S. venture Silver Springs Networks already become positioned as a mainstream technology. Nevertheless, we believe the Smart Meter market will provide medium-sized electronics companies in Japan ample opportunities, as they have the competitive technologies in energy transmission and distribution.

\*Smart Meter: Advanced power measurement systems capable of communication with and managing other equipment.

\*\*Reverse power flow: Power flow generated on the electricity consumption side (homes and other end-users) and fed back to the grid that electric utilities cannot control. A major surge in reverse power flow can cause adverse effects on the quality of electricity distributed.

(This concludes our summary of the Business Results Meeting)

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**PALTEK Corporation / Securities Code 7587**
**Key Financial Data and Business Results (Consolidated)**

Key Stock Indicators (Consolidated)			Key Financial Data (Consolidated)	
No. of Shares Issued	Dec.09	11,849,899	Total Assets (¥million)	Dec.09 9,102
No. of Treasury Stock	Dec.09	420,366	Shareholders' Equity (¥million)	Dec.09 7,905
Market Value (¥million)	Feb.12, 2010	3,496	Interest-Bearing Debt (¥million)	Dec.09 0
BPS (¥)	Dec.09	691.7	Equity Ratio (%)	Dec.09 86.8
ROE (%) ※1	Dec.09	-0.7	Ratio of Interest-Bearing Debt (%) ※4	Dec.09 0.0
ROA (%) ※2	Dec.09	-0.6	Free Cash Flows (¥million) ※5	Dec.09 578
PER (times)	FY12/10 est.	n.a	※1 ROE=Current Net Income÷Averaged Shareholders' Equity of beginning of term and term end	
PCFR (times) ※3	Dec.09	-120.5	※2 ROA=Current Net Income÷Averaged Total Assets of beginning of term and term end	
PBR (times)	Dec.09	0.4	※3 PCFR=Market Value÷(Current Net Income+Depreciation)	
Share Price (¥)	Feb.12, 2010	295	※4 Average Daily Volume=Average Daily Volume for previous 12 months	
Unit Share (shares)	Feb.12, 2010	100	※5 Ratio=Interest-Bearing Debts÷Shareholders' Equity	
Average Daily Volume (share)	Feb.12, 2010	1,487	※6 Free Cash Flows=Operating CF+Investment CF	

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	Dividend per Share (¥)
FY12/05	17,946	541	373	243	20.50	10.0
FY12/06	14,729	(412)	(42)	(36)	(3.10)	10.0
FY12/07	20,655	(300)	(222)	(258)	(22.10)	10.0
FY12/08	20,726	131	286	59	5.10	10.0
FY12/09	14,762	(182)	(103)	(60)	(5.17)	5.0
FY12/10 f.	16,800	150	120	72	6.30	5.0

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

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