

To All Persons Concerned

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**Notice relating to Stock Options (Stock Purchase Warrants)
(The Issuance of the Stock Purchase Warrants without Any Consideration pursuant
to Articles 280-20 and 280-21 of the Commercial Code of Japan)**

Notice is hereby given that the Company, at the meeting of its Board of Directors held on February 14, 2005, resolved the Company shall propose to the 23rd Ordinary General Meeting of Shareholders of the Company, to be held on March 26, 2005, that the Company issue stock purchase warrants without any consideration, for the purpose of enabling the grant of stock options pursuant to Articles 280-20 and 280-21 of the Commercial Code of Japan.

1. Reason for the Issuance of Stock Purchase Warrants with Specially Favorable Conditions to Parties other than Shareholders

The issuance of stock purchase warrants without any consideration is intended to enable the grant of stock options to Directors of PALTEK and its subsidiaries, in order to give them an incentive to improve the Company's business performance in the medium term.

2. Outline of the Issuance of Stock Purchase Warrants

- (1) Parties to whom stock purchase warrants will be allocated
Directors of PALTEK CORPORATION and its subsidiaries
- (2) Kind and number of shares to be issued upon exercise of stock purchase warrants
Not exceeding 80,000 shares of Common Stock of the Company
- (3) Total number of stock purchase warrants to be issued
Not exceeding 800 (one stock purchase warrant will entitle the holder thereof to acquire 100 shares)
- (4) Issue price of stock purchase warrant
None
- (5) Amount to be paid upon exercise of stock purchase warrants
The exercise price to be paid in upon exercise of each stock purchase warrant shall be the amount of the purchase price per share, which will be decided as follows on a day of issuance, multiplied by the number of shares to be issued upon exercise of each stock purchase warrant set forth in (3) (100 shares).
The exercise price shall be the average of the closing price of the shares of the Common Stock of the Company, which is announced by Jasdac Securities Exchange, Inc. on each day (excluding any day on which there is no share transaction) during the month immediately preceding the month in which the stock purchase warrants are issued, multiplied by 1.05 and rounded up to the nearest one yen; provided, however, that in the event the above price is lower than the closing price of the shares of Common Stock of the Company on the day of issuance of the stock purchase warrants (if there is no closing price on such

day, on the day immediately preceding such day), the exercise price shall be the closing price on the day of issuance of the stock purchase warrants.

Provided, further that in the event of any stock split or reverse split of stocks or in the event of any issuance by the Company of new shares of Common Stock at a price less than the market price thereof or any transaction of treasury stocks (excluding issuance as a result of exercise of the stock purchase warrants or exercise of the stock preemptive rights, pursuant to Articles 280-19 of the Commercial Code of Japan), the exercise price shall be adjusted in accordance with the following formula and rounded up to the nearest one yen. When certain event happens including the capital reduction, the merger and corporate split, the exercise price shall be reasonably adjusted in an appropriate way as the Company consider is appropriate.

In the case of stock split or reverse split of its Common Stock

$$\text{Exercising Price after adjustment} = \text{Exercising Price before adjustment} \times \frac{1}{\text{Ratio of split or reverse split}}$$

In the case of issuance of new shares of Common Stock at a price less than the market price thereof or transaction of treasury stocks

$$\text{Exercising Price after adjustment} = \text{Exercising Price before adjustment} \times \frac{\text{Number of shares in issued} + \text{Number of shares as a result of new issue}}{\text{Number of shares in issued} + \text{Increase in number of shares as a result of new issue}} \times \frac{\text{Exercising price per share}}{\text{Market price per share}}$$

(6) Exercise period of stock purchase warrants

From June 1, 2007 to May 31, 2009 (2years)

(7) Conditions for exercise of stock purchase warrants

In order to exercise stock purchase warrants, the party who has received such stock purchase warrants (hereinafter "Purchase Warrants Holder") must be a Director, Corporate Auditor or employee of the Company or a subsidiaries thereof at a time of exercise. In the case that the party lost one's status in the Company, he/she is able to exercise the warrants within 2 years from the loss of the status.

Pledge, disposition and succession of the stock purchase warrants are not approved. Other terms and conditions shall be provided for in an arrangement between the Company and each Stock Purchase Warrants Holder, pursuant to resolutions of this Ordinary General Meeting of Shareholders and a meeting of its Board of Directors.

(8) Cancellation of stock purchase warrants and conditions thereof

When a resolution was adopted at the General Shareholders' Meeting of the Company to approve the merger agreement pursuant to which the Company is merged, or when a resolution at the General Shareholders' Meeting of the Company to approve the stock swap agreement or stock transfer pursuant to which the Company will become a wholly owned subsidiary, the Company shall be entitled to cancel the stock purchase warrants without any consideration therefor.

In the event of the death of the Stock Purchase Warrants Holder prior to exercise thereof, or stock purchase warrants cease to be exercisable due to failure by the party who is granted the stock purchase warrants to satisfy conditions set forth in (7) above prior to exercise thereof, the Company shall be entitled to cancel such stock purchase warrants without any consideration therefor.

When the party who is granted the stock purchase warrants does not exercise the rights within the term that set forth in (6), the Company shall be entitled to cancel such stock purchase warrants without any consideration therefor.

(9) Restriction on transfer of stock purchase warrants

Transfer of stock purchase warrant shall be subject to approval at the meeting of the Board of Directors of the Company.

(Notes)

The resolution described above is subject to approval of "the Issuance of Stock Purchase Warrants with Specially Favorable Conditions to Parties other than Shareholders" at the 23rd Regular Shareholders Meeting to be held on March 26, 2005.

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Questions concerning this Press Release

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