

August 10, 2006



## **PALTEK CORPORATION**

### **Summary of Financial Statements for the interim term ended June 30, 2006**

**(Translation)**

**NOTES:**

All information has been prepared in accordance with generally accepted accounting principles in Japan. Amounts shown in this accounting report and in the attached material have been rounded down to omit fractions less than one thousand yen. This document is an English translation of the Japanese Financial Statement (Kessan Tanshin) which was filed at stock exchange in Japan on August 10, 2006.

Company Name : PALTEK CORPORATION    Head Office : Kanagawa, JAPAN  
Security Code No : 7587    URL : <http://www.paltek.co.jp>  
Representative : Tadahito Takahashi, President  
Contact : Tadashi Ito, Director, General Manager of Operational Service  
                  Division and Environment  
Telephone : +81-45-477-2000  
Date of Board of Directors' Meeting: August 10, 2006  
US GAAP : Not adopted

**Summary of Consolidated Financial Statements**  
Interim term ended June 30, 2006  
(Translation)

August 10, 2006

**PALTEK CORPORATION**

Security code number: 7587 (URL <http://www.paltek.co.jp>)  
 Shares traded: JASDAQ  
 Location of headquarters: Kanagawa, JAPAN  
 Name & Executive position of legal representative: Tadahito Takahashi  
 President  
 Please address all communications to: Tadashi Ito, Director, General Manager of  
 Operational Service Division and Environment  
 Phone: +81-45-477-2000

Date of Board of Directors' meeting for approval  
 of financial results: August 10, 2006  
 Adoption of U.S. accounting standards: None

**1. Consolidated operating results** (From January 1, 2006 to June 30, 2006)**(1) Consolidated financial results**

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Interim 2006	5,948	(28.2)	(150)	-	(43)	-
Interim 2005	8,289	(10.2)	239	(46.8)	105	(79.6)
Fiscal 2005	17,946		541		373	

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
Interim 2006	(37)	-	(3.18)	-
Interim 2005	82	(70.1)	7.01	-
Fiscal 2005	243		20.47	-

(Notes)

1. Equity in earnings (losses) of affiliated companies:

June 2006 interim term: -

June 2005 interim term: -

December 2005 term: -

2. Average number of shares outstanding during term (consolidated basis):

June 2006 interim term: 11,661,206 shares

June 2005 interim term: 11,716,212 shares

December 2005 term: 11,691,064 shares

3. Changes in accounting policy during term: Yes

4. The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

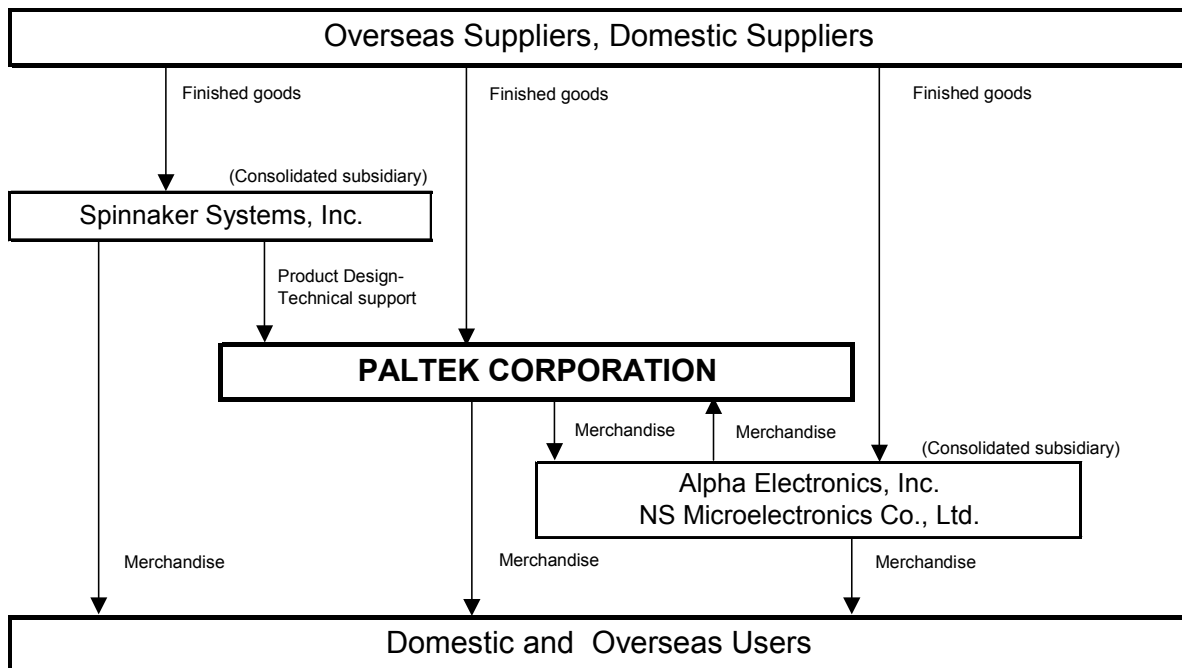


## Group organization

The PALTEK group’s primary business activities are the distribution of semiconductors and design software used in electronics equipment, as well as design support services. The structure of the group and the business relationships among the group companies are illustrated in the diagram below.

On May 16, 2006, PALTEK added NS Microelectronics Co., Ltd. to its group by acquiring 100% of the company’s shares.

Business segment	Business description	Main companies
Semiconductors and related business	Design, development and sales of semiconductor-related products; design-technology support	PALTEK Corporation (PALTEK) Alpha Electronics Inc. (Alpha Electronics) NS Microelectronics Co., Ltd. (NSM) Spinnaker Systems, Inc. (Spinnaker Systems)



## **Management policy, operating results and financial condition**

### Management policy

#### **1. Basic management policies**

The PALTEK group's management philosophy is "cooperative growth with diverse partners." Guided by this philosophy, it aims to create significant social value for all its stakeholders, including customers, suppliers, employees, shareholders, and local communities.

As part of the continually evolving and growing electronics industry, the PALTEK group searches and discovers innovative semiconductors, software and other products being developed around the world and provides them to those who develop and sell a variety of electronic devices and systems. In this search, it is guided by an understanding of leading-edge technologies and market needs. Beyond being simply a distributor, the PALTEK group endeavors to provide best possible solutions to its customers by supporting their development activities with a high level of technology and by proposing systems based solutions that take into consideration the entire architecture of each customer's electronic equipment.

Through such actions, the PALTEK group will work diligently to develop the electronics industry and to contribute to a more convenient and dynamic ubiquitous network society—and, on that basis, coexist in a mutually beneficial way with all of its stakeholders.

#### **2. Basic policy regarding the distribution of profits**

The PALTEK group recognizes that providing value to shareholders is one of management's primary concerns. Accordingly, its basic policy on dividends will be to continue to make payouts that are appropriate in light of its needs to build a strong operating foundation and to finance future business initiatives. It will do so while endeavoring to enhance financial performance and operating efficiency.

With respect to dividend payouts, the Company will maintain a dividend rate of 10 yen per share. With this as a baseline, it will decide on any future changes by considering the appropriateness of its dividend payout ratio in relation to consolidated and parent company earnings.

#### **3. Targeted financial ratios**

The PALTEK group's medium-term goal is to achieve consolidated sales of 50 billion yen and an operating margin of 10%.

#### **4. Medium- to long-term management strategies and issues requiring action**

The group will undertake the following five management strategies to achieve these medium-term goals.

(1) Rebuilding and strengthening the mainstay PLD solutions business

The ability to respond flexibly and timely to changes in the market environment is the hallmark of programmable logic devices (PLD: customized products for specified functions). By offering the flexibility that enables development engineers to alter designs they are working on in response to each situation, PLDs make it possible for companies to bring high-value added products quickly to the market without large initial investment risks.

The PALTEK group began selling PLDs in 1985 when the technology was dawning and has worked hard since then to introduce the new technology and get it more widely accepted. Now, twenty years later, technological innovation has led to increased density, higher performance, and greater speeds in the devices, enabling PLDs to be incorporated into a broad range of electronic equipment and appliances. Due to such expanded uses and a larger customer base, costs of production have declined as production scale has grown, making the technology increasingly cost competitive. And, in recent years, PLDs have become highly suited to the needs of the age as the globalizing economy and the spread of the Internet impose ever-shorter development timetables and product life cycle on manufacturers.

The PALTEK group has terminated its distribution agreement with Altera Corporation, effective March 31, 2006. This brings to a close an approximately 20-year relationship in which the PALTEK group sold PLDs manufactured by Altera as one of its core products. To replace Altera, the Company has entered into a new distribution agreement with Xilinx, Inc., a worldwide leader in PLD solutions, and began marketing and sales of Xilinx's products on February 1, 2006. Against the background of these events, the PALTEK group has recommitted itself to supporting its existing customer base by proposing systems solutions which utilize the know-how and experience in technical support that it has accumulated over the years. In these proposals, the group will continue to rely on its strengths, which include an ability to provide technical support that meets each customer's specific needs and an approach to sales based on a thorough understanding of all of a customer's products. In addition, by taking advantage of Xilinx's broad array of product groups and the strengths of each of these groups, the PALTEK group will seek to make inroads into previously untapped market segments and to expand the devices and instruments in which PLD solutions can be applied.

(2) Expanding and Strengthening analog solutions

Analog semiconductors are an essential part of the accelerating shift toward digitalized equipment and appliances. Strong demand for analog technology is likely to continue hereafter because of the essential role played by this technology in complex power source controls for advanced devices and in power management for mobile phones, digital cameras and other portable devices. The PALTEK group's operations in the area of analog solutions have been led by Alpha Electronics, Inc., a subsidiary whose principal business is the distribution of

products manufactured by National Semiconductor Corporation, a worldwide leader in high-value analog devices and subsystems. On May 16, 2006, the PALTEK group took a step toward strengthening this business through the acquisition of NS Microelectronics Co., Ltd., one of the top distributors of National Semiconductor's products in the Japanese market. The acquisition will allow the group will take full advantage of the knowledge and experience that it has accumulated in this field to increase its sales and base of customers for analog semiconductors. It will do so by selling not only to manufacturers of consumer products such as mobile phones and digital cameras but also to the extensive customer coverage of industrial equipment manufacturers, where it has competitive strengths.

(3) Developing a wider range of system solutions for newly emerging markets

The increasing proliferation of broadband networks and rapidly advancing technological innovation aimed at enhancing the speed and capacity of such networks are prompting the development of new markets driven by the convergence of communications, broadcasting and consumer appliances. To meet the needs of such markets, the PALTEK group will provide solutions built around application-specific standard products (ASSP\*). Its primary focus will be in the following areas, where it can exploit the knowledge, experience and customer networks that it has developed in the field of communications:

- 1) Solutions related to next-generation wireless communications
- 2) Solutions related to the high-speed transfer of large amounts of data
- 3) Solutions related to image processing

The group's focus will not be limited to supplying individual semiconductors to manufacturers in these markets. Rather it will endeavor to provide "system solutions" which capture a wide variety of customer needs, including those for high-speed memory and power source ICs used at the periphery of the ASSP, for modules and packaged products that combine semiconductors with software, and for device-level proposals on near-final products.

*ASSP\* (Application Specific Standard Product): high-performance semiconductors that are dedicated to specific applications.*

(4) Development of new sources of products and the provision of advanced technical support

In the electronics industry, rapid and unpredictable technological progress and increasingly severe international competition are the rule. In such an environment, the PALTEK group believes that it must be constantly tuned in to the latest products and technological trends and must be capable of developing methods and products that assist in the solution of its customers' problems.

Furthermore it realizes that it must continue to provide technical support regarding these new and increasingly complex products. Toward that end, the PALTEK group will endeavor to

attract and nurture engineers and sales force who are highly knowledgeable about markets and technologies and who will be capable of providing proficient technical support.

(5) Efficient group management

With the addition of NS Microelectronics Co., Ltd. to the corporate group on May 16, 2006, the companies in the PALTEK group will begin operating in a more interconnected way. Previously, each had developed its own style of operations based on the products it was handling, its customer base, and so on. Hereafter, PALTEK will endeavor to enhance the efficiency of the overall group by reorganizing and integrating operations among group companies, exchanging personnel, and other measures.

**5. Matters related to the parent company, etc.**

The Company has no parent company.

**6. Development of system of internal control; operational status of this system**

(1) Policies with respect to internal control

The PALTEK group regards internal control as a corporate governance function that is aimed at maximizing the continued growth of enterprise value and at realizing “*kyosei*—cooperative growth.” The group considers internal control to be the structure by which its fundamental policy on governance, which is “to enhance the transparency of management in order to respond quickly to changes in the market environment,” can be appropriately and reasonably executed.

(2) Structure of internal control

Based on the policy described in (1), the Company has developed the following structure of internal control:

- 1) It has established an internal audit group, with the authority to function as an internal checking mechanism over the entire group.
- 2) In relation to administration, it has established a clear distinction between the operations division and the business divisions. The operations division, which comprises legal affairs, human resources, accounting and finance, public relations and investor relations, facilities and services, and information systems, not only supports the business divisions but also provides oversight and risk management-related activities.
- 3) In terms of internal regulations, the Company has completed all work on necessary regulations. If the need arises to prepare new regulations in response to changes in laws and ordinances, the Company is prepared to respond to such needs.

- 4) It has established a risk management office within the operations division to protect the Company against various risks, including economic loss, natural disasters, etc; and it has developed measures to deal quickly and appropriately with such emergencies when they arise.

(3) Measures adopted over the past year to improve the system of internal control

The Company has taken the following recent actions with respect to internal control and internal oversight systems.

- 1) With the coming into force of the Corporation Law, it has rebuilt its “internal control system” and established a risk management office.
- 2) To ensure the effectiveness of 1), the Company has adopted the following regulations: “basic regulations on compliance”; “risk management regulations”; and “regulations on the communication of risk-related information.”
- 3) Over the past year, the Company has conducted 11 internal audits covering the operations of the entire group. These audits examined the group’s activities from a number of perspectives, including: their adherence to rules on information security; legal compliance; the degree of conformity to operational regulations; efficiency of operational execution; etc.

**7. Other important issues related to company management**

There are no other important issues to report related to the Company’s management.

## Financial Performance

### 1. Overview of the period to June 30, 2006

#### (1) Operating results

The Japanese economy during the interim period continued its steady recovery, as capital investment increased due to rising corporate profits and as personal consumption continued to record solid gains as a result of improved employment conditions and growth in incomes. The electronics industry also maintained strong momentum, led by vigorous demand for flat screen televisions, which received a boost from the large audience watching the 2006 FIFA World Cup and from the increasing sense of affordability brought on by price declines. Demand for mobile phones also contributed to growth in the industry.

In this market environment, the PALTEK group placed priority on rebuilding its business following the change of supplier in its mainstay PLD operation. With the termination of the distribution agreement with Altera Corporation on March 31, 2006, the group first worked on handing over operations and customers to new distributors and on returning its remaining inventory to Altera. By the end of June, all tasks related to customer transfer and inventory return had been completed. On a parallel track, the group worked on transitioning to a new structure for its business with Xilinx, Inc., for which a distribution agreement was formally entered into on January 25, 2006. This has entailed building a sales operation and establishing a sales promotion capability for Xilinx products and well as customer transfer issues.

Consequently, with IT infrastructure and quality control systems also put into place, the group was operationally ready to begin shipments on April 1, as originally planned. With respect to sales promotion, all sales and engineering personnel had acquired their qualifications to sell Xilinx products by May. Sales activities are currently proceeding smoothly, with sales and engineering personnel working vigorously to expand the customer base through sales promotions and technical seminars and identifying a number of prospective target projects for Xilinx products.

The second pillar of the PALTEK group's operations, analog solutions, took a major step forward with the Company's acquisition on May 16, 2006 of NS Microelectronics Co., Ltd., an leading distributor of National Semiconductor products in the Japanese market. While accelerating the reconstruction of its PLD solutions business, the group will aim to enhance the synergies between that business and its strengthened analog solutions business while continuing to pursue a strategy of proposing systems built around PLDs.

Under these conditions, sales in the interim period trended slightly higher than previous forecast because of a longer-than-expected process of turning customers of Altera products over to new distributors and because of contributions from analog solution in sales to mobile phone manufacturers and system solution in variety of projects, which were strong during the

period. That said, however, this interim period remained one of transition to a new supplier of PLD solutions. Consequently, sales lagged considerably compared to the year-earlier term, declining by 28.2% to 5,948 million yen.

Despite efforts to reduce expenses during this clearly identified transition period, the Company reported an operating loss of 150 million yen, compared to operating income of 239 million yen in the year-earlier period. In addition to the sharp decline in sales, the loss was caused by slight erosion of the gross profit margin due to transition-related impacts.

At the ordinary income level, the loss was significantly lower as a result of currency gains brought about by yen appreciation and by the recognition of other non-operating profit. These reduced the ordinary loss to 43 million yen (compared to ordinary income of 105 million yen in the previous year).

Consequently, the net loss for the interim period was 37 million yen, compared to interim net income of 82 million yen in the preceding year.

## (2) Cash flow

Cash and cash equivalents decreased by 1,321 million yen compared to the balance at the beginning of the interim term to stand at 1,691 million yen as of the end of the interim term.

The various components of cash flow during the period and factors affecting increases or decreases are summarized below.

### *(Net cash from operating activities)*

Cash provided by operations amounted to 2,394 million yen (an increase of 381.3% year-on-year). This large increase resulted from a temporary shrinkage of the business caused by the termination of the Company's distribution agreement with Altera Corporation and by delays in the start-up of its business development with Xilinx, Inc., which led to more accounts receivables being collected than newly recognized.

### *(Net cash from investing activities)*

Cash provided by investing activities amounted to 91 million yen (an increase of 18.0%), which largely reflected cash proceeds resulting from the addition of NS Microelectronics Co., Ltd. to the group as a new subsidiary.

### *(Net cash from financing activities)*

Cash used in financing activities amounted to 3,808 million yen (an increase of 1,055.7%), reflecting the repayment of debt, the redemption of corporate bonds, and the payment of dividends.

Trends in cash flow-related indices for the corporate group are shown below.

	June 30, 2004	June 30, 2005	June 30, 2006	December 31, 2004	December 31, 2005
Equity ratio	64.2%	65.3%	71.2%	68.4%	65.0%
Equity ratio based on market prices	82.7%	63.0%	42.6%	59.0%	40.6%
Years required to redeem liabilities	0.2 years	1.8 years	0.3 years	1.5 years	2.4 years
Interest-coverage ratio	251.0	59.1	286.6	69.4	45.5

(Notes)

1. *Equity ratio based on market prices: Market capitalization/total assets*
2. *Years required to redeem liabilities: Interest-bearing liabilities/operating cash flow*
3. *Interest-coverage ratio: Operating cash flow/interest payments*
  - (1) *Each of the foregoing ratios is calculated on the basis of consolidated financial data.*
  - (2) *“Market capitalization” is calculated by multiplying the share price on the final day of the fiscal year by the number of shares outstanding on the same day.*
  - (3) *For “operating cash flow,” we use the figure for “cash flow from operating activities” in the consolidated statement of cash flows. “Interest-bearing liabilities” refers to all liabilities on the consolidated balance sheet on which interest payments are made. For “interest payments,” we use the figure for “interest paid” in the consolidated statement of cash flows.*

## 2. Outlook for the year ending December 2006

For the 3rd quarter and beyond, despite continued uncertainties about pressures on corporate profits from sharply higher oil and raw materials prices and about the impact of the ending of the Bank of Japan’s zero-percent interest rate policy, the PALTEK group believes that the economy will continue to perform strongly overall. The electronics industry also appears set to maintain moderate rates of growth, benefiting from increases in capital investment and healthy consumer spending.

In this environment, the Groups’s aim will be to rapidly rebuild its PLD solutions business. Marketing and sales of Xilinx products, which commenced on February 1, 2006, will continue to be the major focus of its efforts. Here the group will endeavor to reconstruct its customer base by providing technical support and proposing systems solutions based on the experience and knowledge that it has gained over many years of working in PLD sales. By capturing new projects, and particularly by offering more proposals to users in rapidly growing market segments, it intends to achieve a speedy recovery of its sales and profits. In the area of analog solutions, the group is now represented by two companies, each selling the products of National Semiconductor Corporation and each with its own strengths in terms of regional characteristics, customer base, and area of competence with respect to equipment applications. By working in a complementary way, Alpha Electronics, Inc. and NS Microelectronics Co., Ltd. will endeavor to strengthen sales of analog solutions. The PALTEK group, moreover, regards the strategic move by National Semiconductor Corporation to strengthen its high-performance analog device business as a good opportunity to make its own advances in this area. Accordingly, it will expand its customer base and develop equipment applications by strengthening sales in the area of telecommunications and industrial

equipment, and by focusing increasingly on systems proposals built around synergies with PLD and with memory and ASSP devices.

Based on the foregoing activities, the PALTEK group is forecasting full-year sales of 13,980 million yen (down 22.1%), an operating loss of 700 million yen (cf. operating income of 541 million yen), an ordinary loss of 610 million yen (cf. ordinary income of 373 million yen), and a net loss of 370 million yen (cf. net income of 243 million yen). On a parent company basis, we are forecasting sales of 6,000 million yen (down 59.4%), an operating loss of 860 million yen (cf. operating income of 402 million yen), an ordinary loss of 740 million yen (cf. ordinary income of 259 million yen), and a net loss of 450 million yen (cf. net income of 174 million yen).

### **3. Risk-related factors**

The following is a list of issues that could affect the financial performance and financial standing of the PALTEK group.

Recognizing the reality of such risks, the group intends to take steps to prevent their occurrence and to develop effective countermeasure if such events come to pass. This section includes forward-looking statements, which are based on judgments made as of the date of the announcement of the group's preliminary financial results for the interim term ended June 2006.

#### **(1) Risk factors resulting from a dependence on semiconductor business**

The customers of the PALTEK group comprise principally companies in the Japanese electronics industry. The financial performance of the group, therefore, is affected by demand for products in its customers' industries and by capital investment trends, as well as by cyclical economic fluctuations that occur in the semiconductor industry as a whole. In response to these risks, the group is implementing changes in its structure of earnings which will allow it to deal effectively with such fluctuations. Notwithstanding such efforts, however, sharp and sudden changes in business conditions in the Japanese electronics industry and changes in demand patterns in the electronics industry could have an impact on the group's financial results.

#### **(2) Dependence on specific suppliers**

During the interim period, the PALTEK group terminated its distribution agreement with Altera Corporation, effective March 31, 2006. This brought to the fore a risk that will have major repercussions on financial performance hereafter. In response, on January 25, 2006, the group entered into a distribution agreement with Xilinx, Inc., a global leader in PLD solutions, which will provide the group with PLD products. In this way, the group is endeavoring to mitigate the impact of the change on its future financial performance. In addition, on May 16, 2006, the Company added NS Microelectronics Co., Ltd. to the PALTEK group through an acquisition of its shares. NS Microelectronics is a leading distributor in Japan of products manufactured by National Semiconductor Corporation, a global leader in high-value analog devices and

subsystems. With this acquisition, group sales of analog solutions, which had been principally the province of Alpha Electronics, Inc., will exceed 10,000 million yen. While at this level, analog solutions become a second major pillar of the group's operations alongside PLD solutions, the amount that is procured from National Semiconductor will also sharply increase. Although business relationships with both Xilinx and National Semiconductor are currently stable, if supplier relationships become difficult to sustain hereafter due to changes in supplier distribution policy, reorganizations of sales networks, or other reasons, this could affect the group's financial performance.

(3) Regarding security breaches that result in the loss of informational assets

The PALTEK group possesses informational assets that are an important tool deploying its sales strategies. The Company has endeavored to prevent breaches in the security surrounding this information through a variety of "soft" and "hard" measures, including strengthening its control over information security through ISMS certification\*, increasing employees' awareness of the importance of protecting information, and limiting the number of persons authorized to access these assets. If, however, despite the Company's best efforts, information falls into other hands due to unforeseen events, the Company's financial performance could suffer from the resulting loss of public trust in the PALTEK group or from other factors such as the need to pay indemnification for damages.

*(ISMS Certification\*: Accredited by the Japan Information Processing Development Corporation in accordance with ISO standards)*

(4) Impact of fluctuation in exchange rates

The PALTEK group's primary business is the selling of semiconductors and related products, the bulk of which are procured from overseas suppliers. Because currency transactions are a regular part of the group's operations, fluctuations in foreign exchange rates could have an impact on the group's financial performance. The group has adopted a variety of measures to minimize these risks and to avoid such impacts. However, such measures cannot guarantee the elimination of all foreign exchange risks. Consequently, sudden and rapid fluctuations in foreign exchange markets could have an impact on the group's financial performance and financial standing.

(5) Recruitment of new suppliers and the advancement of business

The PALTEK group has endeavored to "increase its areas of competitive advantage" and "broaden its base of customers" by procuring the most competitive products in the industry and by expanding and deepening its product offerings. To stay ahead in terms of products and product offerings, the group has effectively utilized its highly proficient technical support capability and a marketing prowess which enables it to tailor its services to individual clients.

The semiconductor industry, however, is characterized by rapid technological innovation and intense competition. In such an environment, it is becoming increasingly competitive to sign influential suppliers. Even if agreements can be reached with such suppliers and their products

begin to be supplied to the customer, there is no guarantee that the PALTEK group's business will unfold as planned. This is because business is affected by factors such as the competitiveness of the customer's final product and by shortened product life cycles. Consequently, while the PALTEK group will continue to keep a close eye on market and technology trends and will endeavor to achieve the targets set in its projections by acquiring competitive new products, its financial performance could be affected by delays in getting businesses that use such new products up and running.

(6) Impact of the shift of production facilities overseas

The PALTEK group sells semiconductors and other products to domestic electronic manufacturers, who, motivated by lower costs and rapidly growing markets, are increasingly shifting their manufacturing plants to overseas locations, principally in China and other parts of Asia. In order to continue to provide products and technical support to these clients, the PALTEK group established Alpha Electron (HK) Co., Ltd. in March 2002 and a representative office in Shanghai in October 2004. In addition, NS Microelectronics Co., Ltd has a branch office in Singapore, which could allow it to function as a key base of sales and physical distribution for the group in Southeast Asia. However, if the development work that is now based in Japan continues to be shifted abroad, and if such activities get transplanted to areas outside the reach of the group's sales activities, it could have an impact on the group's financial performance.

**Consolidated balance sheet**

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Current assets</b>						
Cash and bank deposits	2,702,401		1,739,190		3,049,169	
Notes and accounts receivable	3,511,289		3,661,953		4,058,171	
Inventories	5,357,678		2,688,008		4,273,456	
Other accounts receivable	-		2,644,736		1,034,718	
Others	599,787		125,981		140,751	
Allowance for doubtful accounts	(862)		(325)		(4,262)	
	<u>12,170,294</u>	92.5	<u>10,859,543</u>	89.8	<u>12,552,004</u>	93.1
<b>Fixed assets</b>						
<b>Tangible fixed assets</b>						
	152,765	1.2	123,022	1.0	134,390	1.0
<b>Intangible fixed assets</b>						
Goodwill	-		75,450		-	
Others	85,551		50,167		59,534	
	<u>85,551</u>	0.6	<u>125,617</u>	1.0	<u>59,534</u>	0.4
<b>Investments and other assets</b>						
Investment securities	259,413		231,476		268,022	
Others	490,165		754,439		473,903	
Allowance for doubtful accounts	-		(1,347)		-	
	<u>749,578</u>	5.7	<u>984,569</u>	8.2	<u>741,926</u>	5.5
Total fixed assets	<u>987,894</u>	7.5	<u>1,233,209</u>	10.2	<u>935,851</u>	6.9
<b>Total assets</b>	<u>13,158,189</u>	100.0	<u>12,092,752</u>	100.0	<u>13,487,856</u>	100.0

PALTEK CORPORATION

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Current liabilities</b>						
Notes and accounts payable	1,820,357		1,163,969		1,970,953	
Short-term bank loans	1,683,152		508,664		1,738,350	
Accrued bonuses	60,520		47,821		42,156	
Accrued bonuses for directors and corporate auditors	-		3,500		-	
Others	469,968		596,522		458,612	
	<u>4,033,999</u>	30.6	<u>2,320,476</u>	19.2	<u>4,210,073</u>	31.2
<b>Long-term liabilities</b>						
Long-term bank loans	40,664		115,000		5,820	
Bonds	-		600,000		-	
Liability for employees' retirement benefits	52,131		42,113		42,309	
Liability for directors' and corporate auditors' retirement benefits	284,186		307,480		288,776	
Goodwill	2,552		-		1,914	
Others	94,262		38,176		102,306	
	<u>473,796</u>	3.6	<u>1,102,771</u>	9.1	<u>441,126</u>	3.3
Total liabilities	<u>4,507,795</u>	34.2	<u>3,423,247</u>	28.3	<u>4,651,199</u>	34.5
Minority interests	63,052	0.5	-	-	67,619	0.5
<b>Shareholders' equity</b>						
Common stock	1,339,634	10.2	-	-	1,339,634	9.9
Capital surplus	2,698,526	20.5	-	-	2,698,526	20.0
Retained earnings	4,668,194	35.5	-	-	4,829,522	35.8
Unrealized gains (losses) on other securities, net	10,813	0.1	-	-	31,515	0.2
Treasury stock	(129,827)	(1.0)	-	-	(130,161)	(0.9)
	<u>8,587,341</u>	65.3	<u>-</u>	-	<u>8,769,037</u>	65.0
<b>Total liabilities, minority interests and shareholders' equity</b>	<u>13,158,189</u>	100.0	<u>-</u>	-	<u>13,487,856</u>	100.0
<b>Net assets</b>						
<b>Shareholders' equity</b>						
Common stock	-	-	1,339,634	11.1	-	-
Capital surplus	-	-	2,698,526	22.3	-	-
Retained earnings	-	-	4,671,633	38.6	-	-
Treasury stock	-	-	(130,403)	(1.1)	-	-
	<u>-</u>	-	<u>8,579,390</u>	70.9	<u>-</u>	-
<b>Valuation/translation gains (losses)</b>						
Unrealized gains (losses) on other securities, net	-	-	27,710	0.3	-	-
Deferred hedging gains (losses)	-	-	1,365	0.0	-	-
	<u>-</u>	-	<u>29,075</u>	0.3	<u>-</u>	-
Minority interests	-	-	61,039	0.5	-	-
Total net assets	<u>-</u>	-	<u>8,669,505</u>	71.7	<u>-</u>	-
<b>Total liabilities and net assets</b>	<u>-</u>	-	<u>12,092,752</u>	100.0	<u>-</u>	-

**Consolidated statement of income**

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Net sales</b>	8,289,020	100.0	5,948,184	100.0	17,946,928	100.0
<b>Cost of sales</b>	6,629,507	80.0	4,869,207	81.9	14,585,245	81.3
Gross profit	1,659,513	20.0	1,078,977	18.1	3,361,682	18.7
<b>Selling, general and administrative expenses</b>						
Provision for doubtful accounts	-		-		327	
Salary	464,284		424,654		915,424	
Provision for bonuses	59,608		47,043		41,185	
Provision for directors' and corporate auditors' bonuses	-		3,500		-	
Provision for directors' and corporate auditors' retirement benefits	9,021		4,484		14,183	
Rent expenses	202,291		143,988		356,776	
Others	684,837		606,276		1,492,234	
	1,420,043	17.1	1,229,947	20.6	2,820,132	15.7
Operating income (loss)	239,470	2.9	(150,970)	(2.5)	541,549	3.0
<b>Nonoperating income</b>						
Interest income	627		948		765	
Dividend income	130		77		206	
Foreign exchange gain	-		16,218		-	
Gain on sale of investment securities	2,136		81		2,136	
Amortization of goodwill	638		638		1,276	
Interest on refunds of consumption taxes	2,163		3,457		2,163	
Commissions received	-		112,896		-	
Others	1,654		3,449		2,847	
	7,350	0.1	137,768	2.3	9,396	0.1
<b>Nonoperating expenses</b>						
Interest expenses	8,529		7,467		17,312	
Commissions paid	10,218		9,471		13,747	
Foreign exchange loss	103,131		-		114,239	
Loss on assignment of promissory notes	-		3,456		5,786	
Losses on assignment of accounts receivables	8,745		8,175		16,440	
Others	11,115		1,452		10,056	
	141,740	1.7	30,023	0.5	177,584	1.0
Ordinary income (loss)	105,080	1.3	(43,225)	(0.7)	373,361	2.1

PALTEK CORPORATION

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Extraordinary income</b>						
Gain on sales of fixed assets	1,292		28		1,292	
Reversal of allowance for doubtful accounts	3,072		2,589		-	
Gain on reversal of directors' and corporate auditors' retirement benefits	1,092		75		1,664	
Gain on sale of investment securities	29,558		18,000		41,558	
Gain on redemption of investment securities	-		-		2,041	
Others	759		89		752	
	<u>35,775</u>	0.4	<u>20,782</u>	0.3	<u>47,308</u>	0.3
<b>Extraordinary losses</b>						
Loss on sales of fixed assets	1,295		-		1,295	
Loss on disposal of fixed assets	508		3,900		1,201	
Loss on devaluation of fixed assets	-		-		2,972	
Impairment losses	-		17,111		-	
Loss on devaluation of investment securities	5,302		-		5,302	
	<u>7,105</u>	0.1	<u>21,012</u>	0.3	<u>10,771</u>	0.1
Income (loss) before income taxes and minority interests	133,749	1.6	(43,455)	(0.7)	409,899	2.3
Income taxes - current	28,427		48,649		163,951	
Income taxes - deferred	21,518		(61,794)		(3,504)	
	<u>49,945</u>	0.6	<u>(13,144)</u>	(0.2)	<u>160,446</u>	0.9
Minority interest in income of consolidated subsidiaries	1,636	0.0	6,788	0.1	5,957	0.0
Net income (loss)	<u>82,167</u>	1.0	<u>(37,099)</u>	(0.6)	<u>243,494</u>	1.4

## Consolidated statement of changes in net assets (shareholders' equity, etc.)

Thousands of yen; June 30, 2006	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec 31, 2005	1,339,634	2,698,526	4,829,522	(130,161)	8,737,521
Changes during the term					
Dividends	-	-	(116,614)	-	(116,614)
Directors' and corporate auditors' bonuses	-	-	(4,174)	-	(4,174)
Net income (loss)	-	-	(37,099)	-	(37,099)
Acquisition of treasury stock	-	-	-	(242)	(242)
Other changes in non-shareholders' equity items during the term (net)	-	-	-	-	-
Total changes during the term	-	-	(157,888)	(242)	(158,131)
Balance as of June 30, 2006	1,339,634	2,698,526	4,671,633	(130,403)	8,579,390

Thousands of yen; June 30, 2006	Valuation/translation gains (losses)			Minority interests	Net assets (total)
	Unrealized gains (losses) on other securities	Deferred hedging gains (losses)	Total valuation/translation gains (losses)		
Balance as of Dec 31, 2005	31,515	-	31,515	67,619	8,836,656
Changes during the term					
Dividends	-	-	-	-	(116,614)
Directors' and corporate auditors' bonuses	-	-	-	-	(4,174)
Net income (loss)	-	-	-	-	(37,099)
Acquisition of treasury stock	-	-	-	-	(242)
Other changes in non-shareholders' equity items during the term (net)	(3,805)	1,365	(2,440)	(6,580)	(9,020)
Total changes during the term	(3,805)	1,365	(2,440)	(6,580)	(167,151)
Balance as of June 30, 2006	27,710	1,365	29,075	61,039	8,669,505

**Consolidated statement of retained earnings**

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
<b>Capital surplus</b>			
Balance, beginning of period	2,698,526	-	2,698,526
Balance, end of period	2,698,526	-	2,698,526
<b>Retained earnings</b>			
Balance, beginning of period	4,723,951	-	4,723,951
Increase			
Net income	82,167	-	243,494
	82,167	-	243,494
Decrease			
Cash dividends	117,423	-	117,423
Directors' and corporate auditors' bonuses	20,500	-	20,500
	137,923	-	137,923
Balance, end of period	4,668,194	-	4,829,522

**Consolidated statement of cash flows**

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
<b>Net cash from operating activities</b>			
Income before taxes and minority interests	133,749	(43,455)	409,899
Depreciation	54,168	34,592	103,631
Amortization of goodwill	(638)	(638)	(1,276)
Loss on devaluation of investment securities	5,302	-	5,302
Decrease in allowance for doubtful accounts	(5,844)	(2,589)	(2,444)
Increase (decrease) in accrued bonuses	9,176	5,664	(9,187)
Increase in accrued bonuses for directors and corporate auditors	-	3,500	-
Increase (decrease) in liability for employees' retirement benefits	5,539	(1,590)	(4,282)
Increase (decrease) in liability for directors' and corporate auditors' retirement benefits	7,535	(32,319)	12,125
Interest and dividends income	(757)	(1,026)	(972)
Interest expense	8,529	7,467	17,312
Gain on sales of investment securities	(31,694)	(18,081)	(43,694)
Gain on redemption of investment securities	-	-	(2,041)
Gain on sales of tangible fixed assets	(1,292)	(28)	(1,292)
Loss on valuation of tangible fixed assets	-	-	2,694
Impairment losses	-	17,111	-
Loss on sales of tangible fixed assets	1,295	-	1,295
Loss on disposal of tangible fixed assets	508	3,251	1,201
Loss on valuation of intangible fixed assets	-	-	278
Loss on disposal of intangible fixed assets	-	649	-
Commissions received	-	(112,896)	-
Decrease (increase) in accounts receivable - trade	472,013	2,456,810	(79,999)
Decrease (increase) in inventories	(1,249,157)	3,203,547	(162,687)
Increase (decrease) in accounts payable - trade	748,562	(1,424,441)	899,158
Decrease (increase) in advance payments	25,369	(4,571)	21,872
Decrease (increase) in other accounts receivable	-	(2,450,250)	1,282
Increase (decreases) in accounts payable - other	61,311	62,347	(22,416)
Increase in advances	18,788	1,555	2,911
Decrease (increase) in consumption tax receivable	437,976	742,207	(108,088)
Bonus paid to directors and corporate auditors	(21,730)	(4,700)	(21,730)
Others	40,689	(114,928)	109,056
	<u>719,399</u>	<u>2,327,187</u>	<u>1,127,907</u>
Interest and dividends received	158	370	293
Interest paid	(8,415)	(8,355)	(17,000)
Commissions received	-	112,896	-
Income taxes paid	(213,570)	(37,388)	(338,288)
	<u>497,572</u>	<u>2,394,709</u>	<u>772,912</u>

PALTEK CORPORATION

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
<b>Net cash from investing activities</b>			
Increase in time deposits	(32,000)	(32,000)	(44,001)
Decrease in time deposits	20,000	20,000	40,000
Purchases of investment securities	(3,927)	(2,272)	(5,954)
Proceeds from sales of investment securities	134,250	49,641	195,605
Payments for acquisition of affiliate's equity	-	(11,220)	-
Proceeds received from inclusion of NS Microelectronics Co., Ltd. as a subsidiary	-	106,041	-
Purchases of tangible fixed assets	(22,261)	(13,179)	(29,482)
Proceeds from sales of tangible fixed assets	2,600	304	2,600
Purchases of intangible fixed assets	(2,126)	(6,451)	(8,645)
Payments for loans	(315)	(500)	(315)
Proceeds from collection of loans	-	58	-
Increase in other investments	(18,947)	(19,260)	(21,052)
Decrease in other investments	150	175	9,515
	<u>77,423</u>	<u>91,336</u>	<u>138,272</u>
<b>Net cash from financing activities</b>			
Net decrease in short-term bank loans	(80,000)	(2,814,000)	-
Repayment of long-term bank loans	(73,506)	(827,886)	(133,152)
Payments for redemption of bonds	-	(50,000)	-
Purchases of treasury stock	(56,949)	(242)	(57,283)
Cash dividends paid to minority shareholders	(1,995)	(665)	(1,995)
Cash dividends paid	(117,122)	(116,202)	(117,877)
	<u>(329,573)</u>	<u>(3,808,995)</u>	<u>(310,307)</u>
Effect of exchange rate changes on cash and cash equivalents	735	969	48
Net increase in cash and cash equivalents	<u>246,158</u>	<u>(1,321,978)</u>	<u>600,925</u>
Cash and cash equivalents at beginning of period	<u>2,412,243</u>	<u>3,013,168</u>	<u>2,412,243</u>
Cash and cash equivalents at end of period	<u>2,658,401</u>	<u>1,691,189</u>	<u>3,013,168</u>

## Material information regarding preparation of consolidated financial statements

Item	June 30, 2005	June 30, 2006	December 31, 2005
1. Scope of consolidation	(1) Number of consolidated subsidiaries: 2 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc.	(1) Number of consolidated subsidiaries: 3 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc. NS Microelectronics Co., Ltd. The newly acquired NS Microelectronics Co., Ltd. became a consolidated subsidiary as of the end of the interim period.	(1) Number of consolidated subsidiaries: 2 Names of consolidated subsidiaries: Alpha Electronics, Inc. Spinnaker Systems, Inc.
	(2) Name of unconsolidated subsidiary: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Scale of operations of these unconsolidated subsidiaries are small and their total assets, net sales, interim net income (as calculated by the equity method) and retained earnings (as calculated by the equity method) have no significant impact on the consolidated interim financial statements.	(2) Name of unconsolidated subsidiary: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Same as June 30, 2005	(2) Names of unconsolidated subsidiary: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Scale of operations of these unconsolidated subsidiaries are small and their total assets, net sales, net income (as calculated by the equity method) and retained earnings (as calculated by the equity method) have no significant impact on the consolidated financial statements.
2. Application of equity method	(1) Number of affiliated companies to which the equity method is applicable: -	(1) Number of affiliated companies to which the equity method is applicable: -	(1) Number of affiliated companies to which the equity method is applicable: -
	(2) Name of unconsolidated subsidiary to which the equity method is not applicable: Alpha Electron (HK) Co. Ltd. (Reasons for exclusion from consolidation) Unconsolidated subsidiaries to which the equity method is not applicable have no significant impact on the consolidated interim net income and consolidated retained earnings. In addition, unconsolidated subsidiaries all combined do not have a significant impact on the consolidated results.	(2) Name of unconsolidated subsidiary to which the equity method is not applicable: Same as June 30, 2005 (Reasons for exclusion from consolidation) Same as June 30, 2005	(2) Name of unconsolidated subsidiary to which the equity method is not applicable: Same as June 30, 2005 (Reasons for exclusion from consolidation) Unconsolidated subsidiaries to which the equity method is not applicable have no significant impact on the consolidated net income and consolidated retained earnings. In addition, unconsolidated subsidiaries all combined do not have a significant impact on the consolidated results.
3. Accounting period of consolidated subsidiaries	All subsidiaries have interim term ends that are the same as the day of consolidated interim closing.	NS Microelectronics Co., Ltd. closes its books for the interim period on November 30. In preparing its interim-period financial statements, PALTEK Corporation uses interim statements based on accounts that have been provisionally closed on May 31. However, adjustments are made for all material transactions that arise between that date and the closing date of the interim period.	All subsidiaries have fiscal-year ends that are the same as the day of consolidated closing.

PALTEK CORPORATION

Item	June 30, 2005	June 30, 2006	December 31, 2005
4. Significant accounting policies			
(A) Valuation of material assets	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values:</p> <p>Stated at fair market value as of the balance sheet date.</p> <p>(Unrealized gains and losses are reported in the shareholders' equity section of the consolidated balance sheet. Sales cost is calculated using the moving average method)</p> <p>Available-for-sale securities without market values:</p> <p>Stated at moving average cost.</p>	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values:</p> <p>Same as June 30, 2005</p> <p>Available-for-sale securities without market values:</p> <p>Same as June 30, 2005</p>	<p>(1) Securities:</p> <p>Available-for-sale securities:</p> <p>Available-for-sale securities with market values:</p> <p>Same as June 30, 2005</p> <p>Available-for-sale securities without market values:</p> <p>Same as June 30, 2005</p>
	<p>(2) Derivatives:</p> <p>Stated at fair market value</p>	<p>(2) Derivatives:</p> <p>Same as June 30, 2005</p>	<p>(2) Derivatives:</p> <p>Same as June 30, 2005</p>
	<p>(3) Inventories:</p> <p>(a) Merchandise:</p> <p>Stated by moving average cost</p>	<p>(3) Inventories:</p> <p>(a) Merchandise:</p> <p>Stated by moving average cost</p> <p>(A number of subsidiaries value their inventory at last purchased price.)</p>	<p>(3) Inventories:</p> <p>(a) Merchandise:</p> <p>Stated by moving average cost</p>
	<p>(b) Supplies:</p> <p>Stated by last purchased price method</p>	<p>(b) Supplies:</p> <p>Same as June 30, 2005</p>	<p>(b) Supplies:</p> <p>Same as June 30, 2005</p>
(B) Depreciation of fixed assets	<p>(1) Tangible fixed assets:</p> <p>Declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straight-line method)</p> <p>Useful lives are as follows:</p> <p>Buildings: 10 - 45 years</p> <p>Vehicle equipment: 6 years</p> <p>Furniture and fixtures: 5 - 15 years</p>	<p>(1) Tangible fixed assets:</p> <p>Same as June 30, 2005</p>	<p>(1) Tangible fixed assets:</p> <p>Same as June 30, 2005</p>
	<p>(2) Intangible fixed assets:</p> <p>The straight-line method.</p> <p>Useful life of the software for internal use is 5 years.</p>	<p>(2) Intangible fixed assets:</p> <p>Same as June 30, 2005</p>	<p>(2) Intangible fixed assets:</p> <p>Same as June 30, 2005</p>

PALTEK CORPORATION

Item	June 30, 2005	June 30, 2006	December 31, 2005
(C) Allowances	<p>(1) Allowance for doubtful accounts:</p> <p>An allowance for doubtful accounts is provided to cover possible losses from bad debts. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company and its domestic consolidated subsidiaries states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.</p>	<p>(1) Allowance for doubtful accounts:</p> <p>Same as June 30, 2005</p>	<p>(1) Allowance for doubtful accounts:</p> <p>Same as June 30, 2005</p>
	<p>(2) Accrued bonuses:</p> <p>Reserves are provided to cover the estimated amount of bonuses payable to employees.</p>	<p>(2) Accrued bonuses:</p> <p>Same as June 30, 2005</p>	<p>(2) Accrued bonuses:</p> <p>Same as June 30, 2005</p>
	<p>(3) -</p>	<p>(3) Accrued directors' and corporate auditors' bonuses:</p> <p>The Company recognizes as allowances for directors' and corporate auditors' bonuses amounts that are estimated to be allocable to the interim period under review.</p> <p>(Change in accounting policy)</p> <p>In the interim period to June 2006, the Company began applying "Accounting Standards Relating to Directors' Bonuses" (Accounting Standards Board of Japan, Statement 4; November 29, 2005). This change increased the loss in the operating loss, ordinary loss, and loss before income taxes and minority interests by 3,500,000 yen, respectively.</p>	<p>(3) -</p>
	<p>(4) Liability for employees' retirement benefits:</p> <p>The amount estimated to represent the potential liability, as of the end of this consolidated accounting period, is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.</p>	<p>(4) Liability for employees' retirement benefits:</p> <p>Same as June 30, 2005</p>	<p>(4) Liability for employees' retirement benefits:</p> <p>Same as June 30, 2005</p>

PALTEK CORPORATION

Item	June 30, 2005	June 30, 2006	December 31, 2005
	<p>(5) Liability for directors' and corporate auditors' retirement benefits:</p> <p>An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors.</p> <p>In addition, the Board of Directors, at a meeting held on February 14, 2005, resolved to freeze the system of retirement bonuses for directors and corporate auditors' as of the end of the 23rd Regular General Meeting of Shareholders held on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors since that day.</p>	<p>(5) Liability for directors' and corporate auditors' retirement benefits:</p> <p>An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors.</p> <p>The Company froze its system of retirement bonuses for directors and corporate auditors on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors and corporate auditors' since that date.</p>	<p>(5) Liability for directors' and corporate auditors' retirement benefits:</p> <p>An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors.</p> <p>The Company froze its system of retirement bonuses for directors and corporate auditors on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors and corporate auditors' since that date.</p>
(D) Translation of foreign currency denominated assets and liabilities into Japanese yen	Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the consolidated balance sheet date. Translation differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate.	Same as June 30, 2005	Same as June 30, 2005
(E) Lease transactions	Finance leases for which ownership does not transfer to the lessees are not capitalized, and are accounted for in the same manner as operating leases.	Same as June 30, 2005	Same as June 30, 2005
(F) Hedge accounting	<p>(1) Hedge accounting method: The Company adopts deferred hedge accounting. Foreign exchange contracts for foreign currency demonstrated monetary liabilities are accounted for using the allocation methods</p> <p>(2) Hedging instruments and targets: Hedging instruments: Forward foreign exchange contract Hedging targets: Foreign currency denominated monetary liabilities and transactions scheduled to be denominated in a foreign currency.</p>	<p>(1) Hedge accounting method: Same as June 30, 2005</p> <p>(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2005 Hedging targets: Same as June 30, 2005</p>	<p>(1) Hedge accounting method: Same as June 30, 2005</p> <p>(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2005 Hedging targets: Same as June 30, 2005</p>

PALTEK CORPORATION

Item	June 30, 2005	June 30, 2006	December 31, 2005
	(3) Hedging policies: Derivative transactions are used only by the Company. Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.	(3) Hedging policies: Same as June 30, 2005	(3) Hedging policies: Same as June 30, 2005
	(4) Method for assessing effectiveness of hedges: Accumulated changes in the cash flow of hedged items are compared to the accumulated changes in the cash flow of hedging instruments on a semi-annual basis. The effectiveness of hedging is evaluated by taking the degree of changes in cash flows of the hedged item and hedging transaction into consideration.	(4) Method for assessing effectiveness of hedges: Same as June 30, 2005	(4) Method for assessing effectiveness of hedges: Same as June 30, 2005
(G) Other	Treatment of consumption tax: Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.	Treatment of consumption tax: Same as June 30, 2005	Treatment of consumption tax: Same as June 30, 2005
5. Cash and cash equivalents	Included in "cash and cash equivalents" in the statements of cash flows are cash in hand, demand deposits, and short-term investments with maturities arriving in three months from the date of acquisition that are readily convertible to cash and are subject to minimum risk of price fluctuations.	Same as June 30, 2005	Same as June 30, 2005

## Changes in material information regarding preparation of consolidated financial statements

### June 2006 term

(Accounting standards related to impairment of fixed assets)

In the interim period to June 2006, the Company began applying accounting standards related to the impairment of fixed assets {"Statement of Opinion on Accounting for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guidance for Accounting Standards for Impairment of Fixed Assets" (ASB, Guidance No. 6; October 31, 2003)}. As a result of this change, the net interim loss before taxes and other adjustments increased by ¥17,111 thousand.

In accordance with the rules regarding the preparation of interim period consolidated financial statements, the Company deducted accumulated impairment losses directly from the value of each of the affected assets.

(Accounting standard for presentation of net assets on the balance sheet)

In the interim period to June 2006, the Company began applying the “Accounting Standard for Presentation of Net Assets on the Balance Sheet” (Accounting Standards Board of Japan, Statement 5, December 9, 2005) and the “Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet” (ASB Guidance No. 8, December 9, 2005).

The amount that corresponds to net assets under the previous standard is ¥8,607,100 thousand.

The Company has prepared the net assets portion of the balance sheet as of June 30, 2006 in accordance with the revised rules related to the preparation of interim consolidated financial statements.

## Changes in method of presentation

Thousands of yen	
June 30, 2005	June 30, 2006
<p>(Consolidated balance sheet)</p> <p>Based on a revision passed in 2004 (“Law Revising a Part of the Securities and Exchange Law”; Law no. 97, 2004), Article 2-2 of the Securities and Exchange Law now considers investments in limited partnerships and similar associations to be investment securities. Consequently, investments recorded in the year-earlier interim period in the “other” category of “investments and other assets” (in the amount of ¥63,540 thousand) are included this year in the “investment securities” category.</p> <p>As of the end of the period under review, investments in limited partnerships (which are included under “investment securities”) amounted to ¥67,857 thousand.</p>	<p>(Consolidated balance sheet)</p> <p>Until the previous fiscal year, “other accounts receivable” had been included in the “others” category of current assets. Because these other accounts receivable exceeded 5 percent of total assets during the fiscal year, they were categorized in a separate account.</p> <p>For comparison purposes “other accounts receivable” amounted to ¥490,161 thousand in the interim term ended June 30, 2005.</p>
<p>(Consolidated statement of income)</p> <p>In the year-earlier interim period, “additional reimbursements of consumption taxes” had been included in the “others” category of nonoperating income. But because such expenses exceeded 10 percent of all nonoperating income during the current report period, they are shown as a separate category.</p> <p>For comparison purposes “interest on refunds of consumption taxes” amounted to ¥3,705 thousand in the interim term ended June 30, 2004.</p>	<p>(Consolidated statement of income)</p> <p>In the year-earlier interim period, “loss on assignment of promissory notes” had been included in the “others” category of nonoperating income. But because such expenses exceeded 10 percent of all nonoperating income during the current report period, they are shown as a separate category.</p> <p>For comparison purposes “loss on assignment of promissory notes” amounted to ¥2,846 thousand in the interim term ended June 30, 2005.</p>
<p>(Consolidated statement of cash flows)</p> <p>Based on a revision passed in 2004 (“Law Revising a Part of the Securities and Exchange Law”; Law no. 97, 2004), Article 2-2 of the Securities and Exchange Law now considers investments in limited partnerships and similar associations to be investment securities. Consequently, investments recorded in the year-earlier term under “net cash from investing activities” as “investment in partnership” (the payment of ¥4,385 thousand) are included this year under “purchases of investment securities.”</p> <p>Payments for such investments during the period under review (which are included under “purchases of investment securities”) amounted to ¥3,927 thousand (shown in the cash flow statement as a negative number).</p>	<p>(Consolidated statement of cash flows)</p> <p>In the year-earlier interim period, “decrease (increase) in other accounts receivable” had been included in the “others” category of cash flow. However, because of the increasing materiality of the amounts, they are now shown as a separate category.</p> <p>For comparison purposes “decrease (increase) in other accounts receivable” amounted to ¥(216) thousand in the interim term ended June 30, 2005.</p>

## **Additional information**

### ***June 2005 term***

(Introduction of system of pro forma standard taxation for corporate enterprise taxes)

With the promulgation of the “Law for Partial Amendment of the Local Taxes Law” (Law no. 9, 2003) on March 31, 2003, a system of pro forma standard taxation came into force starting in the fiscal year beginning April 1, 2004. Therefore, in accordance with guidelines contained in the “Practical Treatment of Pro Forma Standard Local Taxes on the Income Statement” (Report of Practical Issues No. 12, Accounting Standards Board of Japan, February 13, 2004), the Company began recognizing enterprise tax levies for added value and capital in the “other” category of sales, general and administrative expenses beginning in the interim period under review.

Consequently, SG&A expenses increased by ¥6,959 thousand, and operating income, ordinary income, and income before income taxes and minority interests all decreased by the same amount.

### ***December 2005 term***

(Introduction of system of pro forma standard taxation for corporate enterprise taxes)

With the promulgation of the “Law for Partial Amendment of the Local Taxes Law” (Law no. 9, 2003) on March 31, 2003, a system of pro forma standard taxation came into force starting in the fiscal year beginning April 1, 2004. Therefore, in accordance with guidelines contained in the “Practical Treatment of Pro Forma Standard Local Taxes on the Income Statement” (Report of Practical Issues No. 12, Accounting Standards Board of Japan, February 13, 2004), the Company began recognizing enterprise tax levies for added value and capital in the “other” category of sales, general and administrative expenses beginning in the fiscal year under review.

Consequently, SG&A expenses increased by ¥15,276 thousand, and operating income, ordinary income, and income before income taxes and minority interests all decreased by the same amount.

**Notes (Consolidated balance sheet)**

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005
1. Aggregate amount of depreciation on fixed assets	396,158	1. Aggregate amount of depreciation on fixed assets	439,548	1. Aggregate amount of depreciation on fixed assets	405,805
2. Retroactive liability due to securitization	311,813	2. Retroactive liability due to securitization	277,307	2.	- 303,713
3. Amount of accounts receivable-trade offered as collateral	4,019	3. Amount of accounts receivable-trade offered as collateral	66,956	3. Amount of accounts receivable-trade offered as collateral	8,617
4.	-	4. Contingent liabilities		4.	-
		On May 25, 2006, NS Microelectronics Co., Ltd. was sued by Toshiba Corporation, which claimed that NS Microelectronics defaulted on its obligations and owed it damages with respect to semiconductor products that it sold to Toshiba. Toshiba is claiming damages in the amount of ¥252,274 thousand. In proceedings, NS Microelectronics has asserted that Toshiba claims are unjustified and it will fight the case in court.			
5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with four banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.		5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with five banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.		5. For more efficient financing of working capital, the Company and a subsidiary have entered into overdraft and loan commitment agreements with four banks. As of the end of the fiscal year, it had the following unused lines of credit on these loan facilities.	
Overdraft and loan commitment agreements	8,150,000	Overdraft and loan commitment agreements	10,200,000	Overdraft and loan commitment agreements	8,050,000
Amounts drawn down	<u>1,350,000</u>	Amounts drawn down	<u>400,000</u>	Amounts drawn down	<u>1,400,000</u>
Unused lines of credit	<u>6,800,000</u>	Unused lines of credit	<u>9,800,000</u>	Unused lines of credit	<u>6,650,000</u>

**(Consolidated statement of income)**

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
1. Breakdown of gains on sale of fixed assets		1. Breakdown of gains on sale of fixed assets	1. Breakdown of gains on sale of fixed assets
Furniture and fixtures	1,292	Furniture and fixtures	28
			Furniture and fixtures
			1,292
2. Breakdown of loss on sale of fixed assets		2.	-
Furniture and fixtures	1,295		
			Furniture and fixtures
			1,295
3. Breakdown of loss on disposal of fixed assets		3. Breakdown of loss on disposal of fixed assets	3. Breakdown of loss on disposal of fixed assets
Furniture and fixtures	508	Furniture and fixtures	3,251
		Software	649
			Furniture and fixtures
			1,201
4.	-	4.	-
			4. Loss on valuation of fixed assets
			Furniture and fixtures
			2,694
			Software
			278
5.	-	5. Impairment losses	5.
			-
		The PALTEK group has recognized impairment losses in the following asset groups.	
		Location	Use
			Type of asset
			Impairment loss
		Yamato-shi, Kanagawa	Idle Land
			11,194
			Building
			5,917
		The PALTEK group classifies impairment losses under the categories of "operating company" and "idle assets."	
		When market value of idle assets declines sharply, the group reduces the book value amounts cited above to levels that are recoverable, and considers the amount of such reductions to be impairment losses. These amounts are then recognized as extraordinary losses.	
		The assessment of recoverable amounts for each classification of assets is based on projected sales value.	

**(Consolidated statement of changes in net assets (shareholders' equity, etc.))**

**1. Types of shares issued; types of treasury stock owned; items related to number of shares**

Shares	No. of shares outstanding at end of previous fiscal year	Increase in no. of shares outstanding during interim term	Decrease in no. of shares outstanding during interim term	No. of shares outstanding at end of interim term
Shares outstanding				
Common stock	11,849,899	-	-	11,849,899
	11,849,899	-	-	11,849,899
Treasury stock				
Common stock	188,415	492	-	188,907
	188,415	492	-	188,907

(Note) The increase of 492 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

## 2. Types of shares issued; types of treasury stock owned; items related to number of shares

Shares; Thousands of yen	Breakdown of stock purchase/subsription warrants	Type of shares that are subject of warrants	No. of shares subject to stock purchase/subsription warrants				Balance at end of term
			At end of previous fiscal year	Increase during term under review	Decrease during term under review	At end of term under review	
Reporting company (parent company)	2001: stock purchase/subsription warrant (note 1)	Common stock	143,300	-	16,700	126,600	-
	2002: stock purchase/subsription warrant (note 2)	Common stock	172,000	-	17,000	155,000	-
	2003: stock purchase/subsription warrant (note 3)	Common stock	70,000	-	10,000	60,000	-
	2004: stock purchase/subsription warrant	Common stock	110,000	-	-	110,000	-
	2005: stock purchase/subsription warrant	Common stock	80,000	-	-	80,000	-
	2006: stock purchase/subsription warrant (note 4)	Common stock		277,200	-	277,200	-
Consolidated subsidiaries	-	-	-	-	-	-	-
		-	575,300	277,200	43,700	808,800	-

(Notes)

1. The decline in stock purchase/subsription warrants in 2001 was due to warrant expiration.
2. The decline in stock purchase/subsription warrants in 2002 was due to warrant expiration.
3. The decline in stock purchase/subsription warrants in 2003 was due to warrant expiration.
4. The increase in stock purchase/subsription warrants in 2006 was due to the issuance of new warrants.

## 3. Items related to dividends

Resolution	Type of shares	Total amount of dividends (Thousand of yen)	Dividend per share (yen)	Date of record	Effective date
Regular general meeting of shareholders on March 25, 2006	Common stock	116,614	10	December 31, 2005	March 25, 2006

## (Consolidated statement of cash flows)

“Cash and bank deposits” on the consolidated balance sheet and “cash and cash equivalents” on the consolidated statement of cash flows are reconciled as follows:

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Cash and bank deposits	2,702,401	1,739,190	3,049,169
Time deposits with maturities longer than 3 months	(44,000)	(48,001)	(36,001)
Cash and cash equivalents	2,658,401	1,691,189	3,013,168

## Lease transactions

1. Finance lease where ownership does not transfer the lessee

(1) Acquisition cost equivalent, accumulated depreciation equivalent and book value equivalent of leased properties as of the end of this consolidated accounting period.

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
<b>Furniture and fixtures</b>			
Acquisition cost equivalent	38,834	10,834	38,834
Accumulated depreciation equivalent	28,174	7,030	32,069
Book value equivalent	10,660	3,803	6,765
<b>Vehicles and delivery equipment</b>			
Acquisition cost equivalent	29,880	33,020	33,020
Accumulated depreciation equivalent	3,937	9,492	6,688
Book value equivalent	25,943	23,527	26,331
<b>Software</b>			
Acquisition cost equivalent	206,723	79,478	35,850
Accumulated depreciation equivalent	192,670	69,415	30,692
Book value equivalent	14,052	10,062	5,157
<b>Total</b>			
Acquisition cost equivalent	275,438	123,333	107,705
Accumulated depreciation equivalent	224,782	85,939	69,450
Book value equivalent	50,656	37,394	38,254

(2) Future minimum lease payments

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Within one year	24,454	14,344	14,960
Over one year	27,427	24,132	24,239
	51,882	38,476	39,200

(3) Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Lease payments	65,490	9,665	81,938
Depreciation equivalent	62,424	9,063	77,966
Interest expense equivalent	1,012	499	1,637

(4) Calculation of depreciation equivalent

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value.

## (5) Calculation of interest expense equivalent

The interest expense equivalent is calculated by taking the difference between the total amount of lease payment and acquisition cost equivalent of the leased property, and amortizing it over the lease period based on the interest method.

## 2. Operating leases - future minimum lease payments

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Within one year	1,074	1,115	1,094
Over one year	2,767	1,652	2,214
	3,842	2,767	3,309

**Securities***June 2005 term*

## 1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	11,890	16,897	5,006
Bonds			
JGB, Local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	81,725	98,073	16,348
	93,616	114,971	21,354

(Note):

During the term ended June 30, 2005, an impairment loss in the amount of ¥302 thousand was recognized for available-for-sale securities with market values.

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the interim term; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the interim term and has remained at these levels for the past two years—and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

## 2. Major components of debt and equity securities without market values

Thousands of yen	June 30, 2005
Available-for sale securities	
Unlisted securities (excluding OTC-traded stocks)	74,788
Investment in limited partnerships, etc.	67,857

**June 2006 term**

## 1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	11,588	19,776	8,188
Bonds			
JGB, Local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	74,691	114,050	39,358
	86,280	133,826	47,546

(Note):

None of the listed investments included under "other" investment securities required the application of impairment accounting.

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the interim term; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the interim term and has remained at these levels for the past two years—and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

## 2. Major components of debt and equity securities without market values

Thousands of yen	June 30, 2006
Available-for sale securities	
Unlisted securities	24,788
Investment in limited partnerships, etc.	71,065

**December 2005 term**

## 1. Available-for-sale securities with market values

Thousands of yen	Acquisition cost	Book value	Difference
Stocks	11,588	20,764	9,176
Bonds			
JGB, Local government bonds	-	-	-
Corporate bonds	-	-	-
Others	-	-	-
Others	74,110	117,364	43,254
	85,698	138,129	52,431

(Note):

During the term ended December 31, 2005, an impairment loss in the amount of ¥302 thousand was recognized for available-for-sale securities with market values.

Except when it is reasonably clear that the possibility of a recovery in market prices exists, the Company recognizes impairment charges in the following instances: when the market price of a security has declined to less than 50% of its purchase price as of the final day of the interim term; or when the market price of a security has declined by between 30% and 50% of its purchase price as of the final day of the interim term and has remained at these levels for the past two years—and, when the Company determines in such cases that there is no possibility of a recovery in market prices.

2. Major components of debt and equity securities without market values

Thousands of yen	December 31, 2005
Available-for sale securities	
Unlisted securities	54,788
Investment in limited partnerships, etc.	73,309

**Derivative transactions**

*June and December 2005 term*

No details are provided herein as these transactions are for hedging purpose only.

*June 2006 term*

June 30; Thousands of yen	2006		
Category and type	Amount of contract etc.	Market value	Unrealized gain (loss)
Currency			
Option transactions			
Put option to sell (U.S.\$)	982,537	(52,565)	(52,565)
Call option to buy (U.S.\$)	982,537	63,105	63,105
	1,965,075	10,540	10,540

(Note) Excludes derivative transactions that fall under the purview of hedge accounting.

**Stock option plan**

*June 2006 term*

Type and number of stock options

The Company granted the following stock options during the interim period under review.

	Stock options in 2006
Categories and numbers of persons to be granted rights	Employees of the Company: 146 Employees of the subsidiaries: 34
No. of stock options granted	Common stock: 277,200 shares
Date options granted	April 25, 2006
Conditions for establishment of rights	At the time of execution of rights, the person in question must have continually held the position of director, corporate auditor or employee of the Company, a subsidiary of the Company, or an equity affiliate of the Company. No one may execute a stock option after three months have passed since such person has lost the position that he/she once held. All other details of the options shall be as stipulated in the "Agreement for Allocation of Stock Purchase/Subscription Warrants" which shall be concluded between the Company and the grantee.
Period of employment covered by options	No period of employment shall be specified.
Execution period	From April 1, 2009 to March 31, 2012
Exercise price	752 yen
Fair valuation (as of date of granting)	-

(Note) Stated in terms of number of shares into which options may be converted.

## **Segment information**

### **Business segment information**

The PALTEK group has operated in only one segment, the semiconductor-related segment (semiconductor-related sales and semiconductor-related design). Consequently, there is no information to report in this section.

### **Geographic segment information**

The PALTEK group was left with no subsidiaries operating outside of Japan and no significant overseas branches. Consequently, this section is no longer applicable.

### **Overseas sales**

Overseas sales information is omitted as it accounts for less than 10% of the total sales.

## Per share-related financial information

Yen	June 30, 2005	June 30, 2006	December 31, 2005
Net assets per share	736.35	743.46	751.61
Net income per share	7.01	3.18	20.47
There is no entry of net income per share, fully diluted for the interim term ended June 30, 2005 because the Company had no residual securities capable of diluting earnings.	Despite the existence of residual securities, no figure for net income after adjustment for residual securities is shown because the Company reported a net loss per share.		There is no entry of net income per share, fully diluted for the fiscal term ended December 31, 2005 because the Company had no residual securities capable of diluting earnings.

(Note) The following standards apply to calculations of net interim period (and full-year) income (loss) per share.

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Net income per share			
Net income (loss)	82,167	(37,099)	243,494
Amount not attributable to common shareholders	-	-	4,174
[Of which, amount paid out as bonuses to directors pursuant to Statement of Appropriation of Net Income]	[-]	[-]	[4,174]
Net income related to common stock	82,167	(37,099)	239,320
Average number of shares outstanding during term (sharers)	11,716,212	11,661,206	11,691,064
Residual securities which were not included in calculations of net income per share after adjustment for residual securities because they had no dilutive effect.	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 319,000 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 3 types, 2,650 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 265,000 shares)	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 281,600 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 4 types, 5,275 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 527,200 shares)	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 315,300 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 3 types, 2,600 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 260,000 shares)

## Significant subsequent events

There are no other important issues to report related to the Company's management.

## Purchases, Orders Received and Sales

### 1. Purchases

Purchases made during the interim term ended June 30, 2006 are as follows:

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Semiconductor business	7,835,864	100.0	1,636,940	100.0	14,660,752	100.0
	7,835,864	100.0	1,636,940	100.0	14,660,752	100.0

(Note)

Consumption tax is not included in the above figures.

### 2. Orders received

Orders received during the interim term ended June 30, 2006 as follows:

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005	
	Orders received	Backlog	Orders received	Backlog	Orders received	Backlog
Semiconductor business	8,246,497	1,239,671	4,963,576	998,011	18,647,353	1,982,619
	8,246,497	1,239,671	4,963,576	998,011	18,647,353	1,982,619

(Note)

Consumption tax is not included in the above figures.

### 3. Sales

Sales during the interim term ended June 30, 2006 as follows:

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Semiconductor business	8,289,020	100.0	5,948,184	100.0	17,946,928	100.0
	8,289,020	100.0	5,948,184	100.0	17,946,928	100.0

(Note)

Consumption tax is not included in the above figures.

**Summary of Nonconsolidated Financial Statements**  
Interim term ended June 30, 2006  
(Translation)

August 10, 2006

**PALTEK CORPORATION**

Security code number: 7587 (URL <http://www.paltek.co.jp>)  
 Shares traded: JASDAQ  
 Location of headquarters: Kanagawa, JAPAN  
 Name & Executive position of legal representative: Tadahito Takahashi  
 President  
 Please address all communications to: Tadashi Ito, Director, General Manager of  
 Operational Service Division and Environment  
 Phone: (045) 477-2000

Date of Board of Directors' meeting for approval  
 of financial results: August 10, 2006  
 Date of first payment of interim dividends: —  
 Adoption of system of interim dividends: Yes  
 Application of unit trading system: Yes (100 shares per unit)

**1. Nonconsolidated operating results** (From January 1, 2006 to June 30, 2006)**(1) Nonconsolidated financial results**

(In millions of yen, with fractional amounts discarded)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Interim 2006	3,613	(48.0)	(280)	-	(155)	-
Interim 2005	6,949	(5.8)	184	(53.2)	74	(84.1)
Fiscal 2005	14,774		402		259	

	Net income		Net income per share
	(Millions of yen)	%	(Yen)
Interim 2006	(96)	-	(8.23)
Interim 2005	67	(75.6)	5.72
Fiscal 2005	174		14.94

## (Notes)

## 1. Average number of shares outstanding during term (nonconsolidated basis):

June 2006 interim term: 11,661,206 shares      June 2005 interim term: 11,716,212 shares  
 December 2005 term: 11,691,064 shares

## 2. Changes in accounting policy during term: Yes

## 3. The percentages shown next to net sales, operating income, ordinary income and net income represent year-on-year changes.

**(2) Nonconsolidated financial position**

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
June 30, 2006	9,543	8,463	88.7	725.80
June 30, 2005	12,617	8,552	67.8	733.34
December 31, 2005	13,049	8,678	66.5	744.18

(Notes)

Number of shares issued and outstanding at the end of term (nonconsolidated):

June 2006 interim term: 11,660,992 shares      June 2005 interim term: 11,661,996 shares

December 2005 term: 11,661,484 shares

Number of treasury stocks at the end of term (nonconsolidated):

June 2006 interim term: 188,907 shares      June 2005 interim term: 187,903 shares

December 2005 term: 188,415 shares

**2. Nonconsolidated forecasts for December 2006 term**

(From January 1, 2006 to December 31, 2006)

	Net sales	Operating income	Ordinary income	Net income
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Annual	6,000	(860)	(740)	(450)

(N.b.) Projected net income per share for fiscal 2006: (38.59) yen

**3. Dividends****Cash dividends**

	Dividend per share		
	Interim	End of term	Annual
	(Yen)	(Yen)	(Yen)
Focal 2005	-	10.00	10.00
Focal 2006 (Actual)	-	-	10.00
Focal 2006 (Forecast)	-	10.00	

*The forecasts stated above are based on our current expectations and assumptions prepared using information available at present and subject to various uncertainties. Actual results may differ significantly due to a variety of causes. Please refer to the attached Page 12 to 13 of Summary of Consolidated Financial Statements for information regarding the preparation of the forecasts.*

**Nonconsolidated balance sheet**

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Current assets</b>						
Cash and bank deposits	2,190,858		700,240		2,889,901	
Notes receivable	232,015		20,669		301,531	
Accounts receivable	2,845,671		827,464		3,096,519	
Inventories	5,015,281		617,465		3,867,744	
Short-term loans	-		2,400,000		50,000	
Other accounts receivable	-		2,581,123		1,034,173	
Others	582,146		83,133		118,387	
Allowance for doubtful accounts	(815)		(221)		(4,165)	
	<u>10,865,157</u>	86.1	<u>7,229,874</u>	75.8	<u>11,354,091</u>	87.0
<b>Fixed assets</b>						
<b>Tangible fixed assets</b>	142,377	1.1	103,647	1.1	125,154	1.0
<b>Intangible fixed assets</b>	83,351	0.7	43,078	0.4	57,493	0.4
<b>Investments and other assets</b>						
Investment securities	1,139,842		1,683,348		1,144,694	
Others	386,902		483,985		367,882	
	<u>1,526,744</u>	12.1	<u>2,167,334</u>	22.7	<u>1,512,577</u>	11.6
Total fixed assets	<u>1,752,473</u>	13.9	<u>2,314,060</u>	24.2	<u>1,695,224</u>	13.0
<b>Total assets</b>	<u>12,617,631</u>	100.0	<u>9,543,935</u>	100.0	<u>13,049,316</u>	100.0

PALTEK CORPORATION

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Current liabilities</b>						
Accounts payable	1,641,710		251,385		1,788,373	
Short-term bank loans	1,650,000		350,000		1,800,000	
Income taxes payable	21,000		7,028		49,500	
Accrued bonuses	48,658		35,780		31,637	
Others	355,183		183,576		356,226	
	<u>3,716,552</u>	29.4	<u>827,770</u>	8.7	<u>4,025,737</u>	30.9
<b>Long-term liabilities</b>						
Liability for employees' retirement benefits	32,710		16,534		21,106	
Liability for directors' and corporate auditors' retirement benefits	221,939		197,897		221,939	
Others	94,262		38,176		102,306	
	<u>348,911</u>	2.8	<u>252,608</u>	2.6	<u>345,351</u>	2.6
Total liabilities	<u>4,065,464</u>	32.2	<u>1,080,378</u>	11.3	<u>4,371,089</u>	33.5
<b>Shareholders' equity</b>						
Common stock	1,339,634	10.6	-	-	1,339,634	10.3
Capital surplus						
Capital reserve	1,678,512		-		1,678,512	
	<u>1,678,512</u>	13.3	-	-	<u>1,678,512</u>	12.8
Retained earnings						
Legal reserve	46,100		-		46,100	
Voluntary reserve	5,400,000		-		5,400,000	
Unappropriated retained earnings	209,401		-		317,047	
	<u>5,655,501</u>	44.8	-	-	<u>5,763,147</u>	44.2
Unrealized gains on other securities, net	8,345	0.1	-	-	27,092	0.2
Treasury stock	(129,827)	(1.0)	-	-	(130,161)	(1.0)
	<u>8,552,167</u>	67.8	-	-	<u>8,678,226</u>	66.5
<b>Total liabilities and shareholders' equity</b>	<u>12,617,631</u>	100.0	-	-	<u>13,049,316</u>	100.0
<b>Net assets</b>						
<b>Shareholders' equity</b>						
Common stock	-	-	1,339,634	14.0	-	-
Capital surplus						
Capital reserve	-		1,678,512		-	
	<u>-</u>	-	<u>1,678,512</u>	17.6	<u>-</u>	-
Retained earnings						
Legal reserve	-		46,100		-	
Other retained earnings						
Special reserves	-		5,400,000		-	
Retained earnings carried forward	-		104,413		-	
	<u>-</u>	-	<u>5,550,513</u>	58.2	<u>-</u>	-
Treasury stock	-	-	(130,403)	(1.4)	-	-
	<u>-</u>	-	<u>8,438,258</u>	88.4	<u>-</u>	-

PALTEK CORPORATION

Thousands of yen	June 30, 2005	%	June 30, 2006	%	December 31, 2005	%
<b>Valuation/translation gains (losses)</b>						
Unrealized gains (losses) on other securities, net	-		23,933		-	
Deferred hedging gains (losses)	-		1,365		-	
	-		25,298	0.3	-	
Total net assets	-		8,463,556	88.7	-	
<b>Total liabilities and net assets</b>	-		9,543,935	100.0	-	

**Nonconsolidated statement of income**

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005	
		%		%		%
<b>Net sales</b>	6,949,970	100.0	3,613,627	100.0	14,774,182	100.0
<b>Cost of sales</b>	5,600,551	80.6	2,934,574	81.2	12,069,768	81.7
Gross profit	1,349,419	19.4	679,052	18.8	2,704,413	18.3
<b>Selling, general and administrative expenses</b>	1,164,509	16.7	959,390	26.6	2,302,297	15.6
Operating income (loss)	184,910	2.7	(280,338)	(7.8)	402,115	2.7
<b>Nonoperating income</b>	22,314	0.3	151,202	4.2	23,605	0.2
<b>Nonoperating expenses</b>	132,624	1.9	26,603	0.7	166,302	1.1
Ordinary income (loss)	74,599	1.1	(155,738)	(4.3)	259,418	1.8
<b>Extraordinary income</b>	33,202	0.4	22,108	0.6	44,351	0.3
<b>Extraordinary losses</b>	810	0.0	21,012	0.6	4,476	0.1
Income (loss) before income taxes	106,991	1.5	(154,641)	(4.3)	299,294	2.0
Income taxes - current	17,132		1,965		125,210	
Income taxes - deferred	22,788		(60,587)		(633)	
	39,921	0.5	(58,622)	(1.6)	124,577	0.8
Net income (loss)	67,070	1.0	(96,019)	(2.7)	174,717	1.2
Retained earnings at the beginning of period	142,330		-		142,330	
Unappropriated retained earnings	209,401		-		317,047	

## Nonconsolidated statement of changes in net assets (shareholders' equity, etc.)

Thousands of yen; June 30, 2006	Shareholders' equity								
	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
	Common stock	Capital reserve	Legal reserve	Special reserve	Other retained earnings				
					Retained earnings carried forward	Total retained earnings			
Balance as of Dec 31, 2005	1,339,634	1,678,512	46,100	5,400,000	317,047	5,763,147	(130,161)	8,651,134	
Changes during the term									
Dividends	-	-	-	-	(116,614)	(116,614)	-	(116,614)	
Net income (loss)	-	-	-	-	(96,019)	(96,019)	-	(96,019)	
Acquisition of treasury stock	-	-	-	-	-	-	(242)	(242)	
Other changes in non-shareholders' equity items during the term (net)	-	-	-	-	-	-	-	-	
Total changes during the term	-	-	-	-	(212,634)	(212,634)	(242)	(212,876)	
Balance as of June 30, 2006	1,339,634	1,678,512	46,100	5,400,000	104,413	5,550,513	(130,403)	8,438,258	
Thousands of yen; June 30, 2006	Valuation/translation gains (losses)				Total valuation/translation gains (losses)	Net assets (total)			
	Other changes in non-shareholders' equity items during the term (net)		Deferred hedging gains (losses)						
Balance as of Dec 31, 2005	27,092		-	27,092	8,678,226				
Changes during the term									
Dividends	-		-	-	(116,614)				
Net income (loss)	-		-	-	(96,019)				
Acquisition of treasury stock	-		-	-	(242)				
Other changes in non-shareholders' equity items during the term (net)	(3,158)		1,365	(1,793)	(1,793)				
Total changes during the term	(3,158)		1,365	(1,793)	(214,670)				
Balance as of June 30, 2006	23,933		1,365	25,298	8,463,556				

## Summary of significant accounting policies

Item	June 30, 2005	June 30, 2006	December 31, 2005
1. Valuation of material assets	(1) Available-for-sale securities:	(1) Available-for-sale securities:	(1) Available-for-sale securities:
	(a) Available-for-sale securities with market values: Stated at fair market value as of balance sheet date. (Unrealized gains and losses are reported in the shareholders' equity section of the nonconsolidated balance sheet. Sales cost is calculated using the moving average method)	(a) Available-for-sale securities with market values: Same as June 30, 2005	(a) Available-for-sale securities with market values: Same as June 30, 2005
	Available-for-sale securities without market values: Stated at moving average cost	Available-for-sale securities without market values: Same as June 30, 2005	Available-for-sale securities without market values: Same as June 30, 2005
	(b) Securities of subsidiaries and associated companies: Stated at moving average cost	(b) Securities of subsidiaries and associated companies: Same as June 30, 2005	(b) Securities of subsidiaries and associated companies: Same as June 30, 2005
	(2) Derivatives: Stated at fair market value.	(2) Derivatives: Same as June 30, 2005	(2) Derivatives: Same as June 30, 2005
	(3) Inventories	(3) Inventories	(3) Inventories
(a) Merchandise: Stated by moving average cost	(a) Merchandise: Same as June 30, 2005	(a) Merchandise: Same as June 30, 2005	
(b) Supplies: Stated by last purchased price method	(b) Supplies: Same as June 30, 2005	(b) Supplies: Same as June 30, 2005	
2. Depreciation of fixed assets	(1) Tangible fixed assets: Declining balance method (Note: Buildings, excluding ancillary facilities, acquired on or after April 1, 1998 are depreciated based on the straight line method)  Useful lives are as follows: Buildings: 10 - 45 years Furniture and fixtures: 5 - 15 years	(1) Tangible fixed assets: Same as June 30, 2005	(1) Tangible fixed assets: Same as June 30, 2005
	(2) Intangible fixed assets: The straight line method: Useful life of the software for internal use is 5 years.	(2) Intangible fixed assets: Same as June 30, 2005	(2) Intangible fixed assets: Same as June 30, 2005
3. Allowances	(1) Allowance for doubtful accounts: An allowance for doubtful accounts is provided to cover possible losses from bad debts. The allowance with respect to non-classified loans/receivables is calculated based on historical default rates. For classified loans/receivables, the Company states an amount deemed to be unrecoverable based on the prospect of recovery of individual loans/receivables.	(1) Allowance for doubtful accounts: Same as June 30, 2005	(1) Allowance for doubtful accounts: Same as June 30, 2005
	(2) Accrued bonuses: To provide for payments of employee bonuses, an amount attributable to the interim period is accrued on the basis of estimates made for the full year.	(2) Accrued bonuses: Same as June 30, 2005	(2) Accrued bonuses: Reserves are provided to cover the estimated amount of bonuses payable to employees.

PALTEK CORPORATION

Item	June 30, 2005	June 30, 2006	December 31, 2005
	(3) Liability for employees' retirement benefits: The amount estimated to represent the potential liability as of the end of interim term is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.	(3) Liability for employees' retirement benefits: Same as June 30, 2005	(3) Liability for employees' retirement benefits: The amount estimated to represent the potential liability as of the end of fiscal year is calculated by taking retirement benefit liabilities and the estimated value of pension assets into consideration.
	(4) Liability for directors' and corporate auditors' retirement benefits: An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors. In addition, the Board of Directors, at a meeting held on February 14, 2005, resolved to freeze the system of retirement bonuses for directors and corporate auditors' as of the end of the 23rd Regular General Meeting of Shareholders held on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors since that day.	(4) Liability for directors' and corporate auditors' retirement benefits: An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors. The Company froze its system of retirement bonuses for directors and corporate auditors on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors since that date.	(4) Liability for directors' and corporate auditors' retirement benefits: An allowance is provided to cover the estimated amount of retirement benefits payable to directors and corporate auditors. The Company froze its system of retirement bonuses for directors and corporate auditors on March 26, 2005. Consequently, there has been no new provisioning of retirement bonuses for directors since that date.
4. Transaction of foreign currency denominated assets and liabilities into Japanese yen	Foreign currency denominated monetary rights and obligations are translated into Japanese yen using the prevailing spot exchange rate as of the balance sheet date. Transaction differences are recognized as foreign exchange gains or losses. Foreign currency denominated monetary obligations that are subject to hedging by forward foreign exchange contracts are translated into Japanese yen using the actual contracted exchange rate.	Same as June 30, 2005	Same as June 30, 2005
5. Lease transactions	Finance leases for which ownership does not transfer to the lessee are not capitalized, and are accounted for in the same manner as operating leases.	Same as June 30, 2005	Same as June 30, 2004
6. Hedge accounting	(1) Hedge accounting method: The Company adopts deferred hedge accounting. Foreign exchange contracts for foreign currency demonstrated monetary liabilities are accounted for using the allocation methods	(1) Hedge accounting method: Same as June 30, 2005	(1) Hedge accounting method: Same as June 30, 2005
	(2) Hedging instruments and targets: Hedging instruments: Forward foreign exchange contract Hedging targets: Foreign currency denominated monetary liabilities and transactions scheduled to be denominated in a foreign currency.	(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2005 Hedging targets: Same as June 30, 2005	(2) Hedging instruments and targets: Hedging instruments: Same as June 30, 2005 Hedging targets: Same as June 30, 2005

PALTEK CORPORATION

Item	June 30, 2005	June 30, 2006	December 31, 2005
	(3) Hedging policies: Eligible hedging instruments are approved at the Board of Directors Meeting at the time of the preparation of the import plan.	(3) Hedging policies: Same as June 30, 2005	(3) Hedging policies: Same as June 30, 2005
	(4) Method of assessing effectiveness of hedges: Accumulated changes in the cash flow of hedged items are compared to the accumulated changes in the cash flow of hedging instruments on a semi-annual basis. The effectiveness of hedging is evaluated by taking the degree of changes in cash flows of the hedged item and hedging transaction into consideration.	(4) Method of assessing effectiveness of hedges: Same as June 30, 2005	(4) Method of assessing effectiveness of hedges: Same as June 30, 2005
7. Other	Treatment of consumption tax: Transactions subject to consumption tax are recorded at amounts exclusive of consumption taxes.	Treatment of consumption tax: Same as June 30, 2005	Treatment of consumption tax: Same as June 30, 2005

## Changes in material information regarding preparation of consolidated financial statements

### June 2006 term

(Accounting standards related to impairment of fixed assets)

In the interim period to June 2006, the Company began applying accounting standards related to the impairment of fixed assets {"Statement of Opinion on Accounting for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guidance for Accounting Standards for Impairment of Fixed Assets" (ASB, Guidance No. 6; October 31, 2003)}. As a result of this change, the net interim loss before taxes and other adjustments increased by ¥17,111 thousand.

In accordance with the rules regarding the preparation of interim period consolidated financial statements, the Company deducted accumulated impairment losses directly from the value of each of the affected assets.

(Accounting standard for presentation of net assets on the balance sheet)

In the interim period to June 2006, the Company began applying the "Accounting Standard for Presentation of Net Assets on the Balance Sheet" (Accounting Standards Board of Japan, Statement 5, December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets on the Balance Sheet" (ASB Guidance No. 8, December 9, 2005).

The amount that corresponds to net assets under the previous standard is ¥8,462,191 thousand.

The Company has prepared the net assets portion of the balance sheet as of June 30, 2006 in accordance with the revised rules related to the preparation of interim consolidated financial statements.

(Accounting standard related to directors' and corporate auditors' bonuses)

In the interim period to June 2006, the Company began applying "Accounting Standards Relating to Directors' Bonuses" (Accounting Standards Board of Japan, Statement 4; November 29, 2005). This change had no impact on earnings during the period.

## Changes in method of presentation

Thousands of yen	
June 30, 2005	June 30, 2006
(Nonconsolidated balance sheet) Based on a revision passed in 2004 ("Law Revising a Part of the Securities and Exchange Law"; Law no. 97, 2004), Article 2-2 of the Securities and Exchange Law now considers investments in limited partnerships and similar associations to be investment securities. Consequently, investments recorded in the year-earlier interim period in the "other" category of "investments and other assets" (in the amount of ¥63,540 thousand) are included this year in the "investment securities" category. As of the end of the period under review, investments in limited partnerships (which are included under "investment securities") amounted to ¥67,857 thousand.	(Nonconsolidated balance sheet) Until the previous fiscal year, "other accounts receivable" had been included in the "others" category of current assets. Because these consumption taxes receivable exceeded 5 percent of total assets during the fiscal year, they were categorized in a separate account. For comparison purposes "other accounts receivable" amounted to ¥490,754 thousand in the interim term ended June 30, 2005.

## Additional information

### June 2005 term

(Introduction of system of pro forma standard taxation for corporate enterprise taxes)

With the promulgation of the "Law for Partial Amendment of the Local Taxes Law" (Law no. 9, 2003) on March 31, 2003, a system of pro forma standard taxation came into force starting in the fiscal year beginning April 1, 2004. Therefore, in accordance with guidelines contained in the "Practical Treatment of Pro Forma Standard Local Taxes on the Income Statement" (Report of Practical Issues No. 12, Accounting Standards Board of Japan, February 13, 2004), the Company began recognizing enterprise tax levies for added value and capital in the "other" category of sales, general and administrative expenses beginning in the interim period under review.

Consequently, SG&A expenses increased by ¥6,234 thousand, and operating income, ordinary income, and income before income taxes and minority interests all decreased by the same amount.

**December 2005 term**

(Introduction of system of pro forma standard taxation for corporate enterprise taxes)

With the promulgation of the “Law for Partial Amendment of the Local Taxes Law” (Law no. 9, 2003) on March 31, 2003, a system of pro forma standard taxation came into force starting in the fiscal year beginning April 1, 2004. Therefore, in accordance with guidelines contained in the “Practical Treatment of Pro Forma Standard Local Taxes on the Income Statement” (Report of Practical Issues No. 12, Accounting Standards Board of Japan, February 13, 2004), the Company began recognizing enterprise tax levies for added value and capital in the “other” category of sales, general and administrative expenses beginning in the fiscal year under review. Consequently, SG&A expenses increased by ¥14,062 thousand, and operating income, ordinary income, and income before income taxes and minority interests all decreased by the same amount.

**Notes (Nonconsolidated balance sheet)**

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005
1. Aggregate amount of depreciation on fixed assets	371,598	1. Aggregate amount of depreciation on fixed assets	382,357	1. Aggregate amount of depreciation on fixed assets	379,075
2. Treatment of consumption taxes, etc. After offsetting the suspense accounts for receipt and payment of consumption taxes, the Company includes the remainder in the “others” category of current assets.		2. Treatment of consumption taxes, etc. After offsetting the suspense accounts for receipt and payment of consumption taxes, the Company includes the remainder in the “other accounts receivable” category of current assets.		2.	-
3. Retroactive liability due to securitization	311,813	3. Retroactive liability due to securitization	277,307	3. Retroactive liability due to securitization	303,713
4. Contingent liabilities		4. Contingent liabilities		4. Contingent liabilities	
(1) Guarantee of subsidiary's borrowings from financial institutions Alfa Electronics, Inc.	158,400	(1) Guarantee of subsidiary's borrowings from financial institutions Alfa Electronics, Inc.	228,150	(1) Guarantee of subsidiary's borrowings from financial institutions Alfa Electronics, Inc.	137,600
(2) Guarantee of a subsidiary's accounts payable Alfa Electronics, Inc.	146,151	(2) Guarantee of a subsidiary's accounts payable Alfa Electronics, Inc.	250,000	(2) Guarantee of a subsidiary's accounts payable Alfa Electronics, Inc.	142,374
5. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with four banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.		5. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with four banks. As of the end of the interim term, it had the following unused lines of credit on these loan facilities.		5. For more efficient financing of working capital, the Company has entered into overdraft and loan commitment agreements with four banks. As of the end of the fiscal year, it had the following unused lines of credit on these loan facilities.	
Overdraft and loan commitment agreements	7,900,000	Overdraft and loan commitment agreements	7,900,000	Overdraft and loan commitment agreements	7,900,000
Amounts drawn down	1,350,000	Amounts drawn down	-	Amounts drawn down	1,350,000
Unused lines of credit	6,550,000	Unused lines of credit	7,900,000	Unused lines of credit	6,550,000

**(Nonconsolidated statement of income)**

Thousands of yen	June 30, 2005		June 30, 2006		December 31, 2005												
1. Primary items and amounts included under nonoperating income		1. Primary items and amounts included under nonoperating income		1. Primary items and amounts included under nonoperating income													
Interest income	12	Interest income	531	Interest income	513												
Dividend income	15,908	Commissions and fees	112,896	Dividend income	15,908												
		Foreign exchange gain	16,623														
2. Primary items and amounts included under nonoperating expenses		2. Primary items and amounts included under nonoperating expenses		2. Primary items and amounts included under nonoperating expenses													
Interest expenses	7,975	Interest expenses	7,811	Interest expenses	16,986												
Foreign exchange loss	104,688	Commissions paid	9,471	Foreign exchange loss	116,623												
		Loss on assignment of promissory notes	3,456														
		Losses on assignment of receivables	4,411														
3. Primary items and amounts included under extraordinary income		3. Primary items and amounts included under extraordinary income		3. Primary items and amounts included under extraordinary income													
Gain on sales of investment securities	29,558	Reversal of allowance for doubtful accounts	3,944	Gain on sales of investment securities	41,558												
		Gain on sales of investment securities	18,000														
4.	-	4. Primary items and amounts included under extraordinary losses		4. Primary items and amounts included under extraordinary losses													
		Loss on sales of fixed assets	3,900	Loss on sales of fixed assets	1,201												
		Impairment losses	17,111	Loss on devaluation of fixed assets	2,972												
5.	-	5. Impairment losses		5.	-												
		The PALTEK group has recognized impairment losses in the following asset groups.															
		<table border="1"> <thead> <tr> <th>Location</th> <th>Use</th> <th>Type of asset</th> <th>Impairment loss</th> </tr> </thead> <tbody> <tr> <td>Yamato-shi, Kanagawa</td> <td>Idle</td> <td>Land</td> <td>11,194</td> </tr> <tr> <td></td> <td></td> <td>Building</td> <td>5,917</td> </tr> </tbody> </table>				Location	Use	Type of asset	Impairment loss	Yamato-shi, Kanagawa	Idle	Land	11,194			Building	5,917
Location	Use	Type of asset	Impairment loss														
Yamato-shi, Kanagawa	Idle	Land	11,194														
		Building	5,917														
		The Company places impairment losses under the categories of "total company" and "idle assets."															
		When market value of idle assets declines sharply, the group reduces the book value amounts cited above to levels that are recoverable, and considers the amount of such reductions to be impairment losses. These amounts are then recognized as extraordinary losses.															
		The assessment of recoverable amounts for each classification of assets is based on projected sales value.															
6. Depreciation		6. Depreciation		6. Depreciation													
Tangible fixed assets	17,315	Tangible fixed assets	15,235	Tangible fixed assets	36,655												
Intangible fixed assets	34,363	Intangible fixed assets	17,933	Intangible fixed assets	62,611												

## (Nonconsolidated statement of changes in net assets (shareholders' equity, etc.))

### Types of shares issued; types of treasury stock owned; items related to number of shares

Shares	No. of shares outstanding at end of previous fiscal year	Increase in no. of shares outstanding during interim term	Decrease in no. of shares outstanding during interim term	No. of shares outstanding at end of interim term
Common stock	188,415	492	-	188,907
	188,415	492	-	188,907

(Note) The increase of 492 shares of treasury stock reflects the Company's purchase of shares from shareholders holding less than one unit.

### Lease transactions

1. Finance lease where ownership does not transfer the lessee

(1) Acquisition cost equivalent, accumulated depreciation equivalent and book value equivalent of leased properties as of the end of this accounting period.

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
<b>Software</b>			
Acquisition cost equivalent	206,723	18,600	35,850
Accumulated depreciation equivalent	192,670	16,740	30,692
Book value equivalent	14,052	1,860	5,157
<b>Vehicles and delivery equipment</b>			
Acquisition cost equivalent	29,880	29,880	29,880
Accumulated depreciation equivalent	3,937	8,917	6,427
Book value equivalent	25,943	20,963	23,453
<b>Total</b>			
Acquisition cost equivalent	236,604	48,480	65,730
Accumulated depreciation equivalent	196,607	25,657	37,119
Book value equivalent	39,996	22,823	28,611

(2) Future minimum lease payments

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Within one year	17,368	6,820	10,166
Over one year	23,464	16,644	19,097
	40,833	23,464	29,264

(3) Lease expenses and pro forma data as to depreciation expenses and interest expenses are summarized as follows

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Lease payments	61,367	6,181	73,404
Depreciation equivalent	58,529	5,787	69,914
Interest expense equivalent	857	382	1,325

(4) Calculation of depreciation equivalent

Depreciation is based on the straight-line method over the lease term of the leased assets with no residual value.

(5) Calculation of interest expense equivalent

The interest expense equivalent is calculated by taking the difference between the total amount of lease payment and acquisition cost equivalent of the leased property, and amortizing it over the lease period based on the interest method.

## Securities

The Company held no securities with market values issued by subsidiaries and associated companies.

## Per share-related financial information

Yen	June 30, 2005		June 30, 2006		December 31, 2005
Net assets per share	733.34	Net assets per share	725.80	Net assets per share	744.18
Net income per share	5.72	Net loss per share	8.23	Net income per share	14.94
There is no entry for net income per share fully diluted for the interim term ended June 30, 2005 because the Company had no residual securities capable of diluting earnings.		Despite the existence of residual securities, no figure for net income after adjustment for residual securities is shown because the Company reported a net loss per share.		There is no entry for net income per share fully diluted for the fiscal term ended December 31, 2005 because the Company had no residual securities capable of diluting earnings.	

(Note) The following standards apply to calculations of net interim period (and full-year) income (loss) per share.

Thousands of yen	June 30, 2005	June 30, 2006	December 31, 2005
Net income per share			
Net income (loss)	67,070	(96,019)	174,717
Amount not attributable to common shareholders	-	-	-
[Of which, amount paid out as bonuses to directors pursuant to Statement of Appropriation of Net Income]	[-]	[-]	[-]
Net income related to common stock	67,070	(96,019)	174,717
Average number of shares outstanding during term (sharers)	11,716,212	11,661,206	11,691,064
Residual securities which were not included in calculations of net income per share after adjustment for residual securities because they had no dilutive effect.	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 319,000 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 3 types, 2,650 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 265,000 shares)	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 281,600 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 4 types, 5,272 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 527,200 shares)	(Warrants based on Article 280-19 of the Old Commercial Code) 2 types of warrants (number of shares to be issued through exercise of warrants: 315,300 shares) (Stock acquisition rights based on Articles 280-20 and 280-21 of the Commercial Code) 3 types, 2,600 stock acquisition rights (number of shares to be issued through the exercise of stock acquisition rights: 260,000 shares)

**Significant subsequent events**

N/A

**Others**

N/A