

February 12, 2009



## **PALTEK CORPORATION**

# **Summary of Financial Statements for the Term Ended December 31, 2008 (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 the units indicated. This document is an English translation of the Japanese Financial Statements (*Kessan Tanshin*) filed with the stock exchange in Japan on February 12, 2009.

Company Name:	PALTEK CORPORATION	Shares Traded:	JASDAQ
Security Code No:	7587	URL:	<a href="http://www.paltek.co.jp/">http://www.paltek.co.jp/</a>
Representative:	Tadahito Takahashi, President		
Contact:	Tadashi Ito, Director, General Manager of Operational Service Division		
Telephone:	+81-45-477-2000		
Scheduled date of Annual General Meeting of Shareholders:	March 28, 2009		
Scheduled date of commencement of dividend payments:	March 30, 2009		
Scheduled filing date for full-year financial report:	March 30, 2009		

**Summary of Consolidated Financial Statements**  
**Fiscal year ended December 31, 2008**  
 (Translation)

February 12, 2009

**PALTEK CORPORATION**

Security Code No.: 7587

Shares Traded: JASDAQ

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**1. Consolidated operating results** (From January 1, 2008 to December 31, 2008)**(1) Consolidated financial results**

(Fractional amounts discarded)  
 (Percentage figures show year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Fiscal 2008	20,726	-	131	-	286	-	59	-
Fiscal 2007	20,655	40.2	(300)	-	(222)	-	(258)	-

	Net income per share	Net income per share, fully diluted	Return on equity ratio	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	(Yen)	(Yen)	%	%	%
Fiscal 2008	5.07	-	0.7	2.7	0.6
Fiscal 2007	(22.13)	-	(3.1)	(2.0)	(1.5)

(N.B.) Equity in earnings (losses) of affiliated companies:

December 2008 fiscal term: -

December 2007 fiscal term: -

**(2) Consolidated financial position**

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2008	10,322	8,137	78.8	697.91
December 31, 2007	11,013	8,211	74.6	704.24

(N.B.) Total equity:

December 31, 2008: 8,137 million yen

December 31, 2007: 8,211 million yen

### (3) Consolidated cash flows

	Net cash from operating activities	Net cash from investing activities	Net cash from financing activities	Cash and cash equivalents at end of term
	(Millions of yen)	(Millions of yen)	(Millions of yen)	(Millions of yen)
Fiscal 2008	664	(82)	(346)	2,466
Fiscal 2007	(548)	101	566	2,231

### 2. Dividends

(Record date)	Annual dividend per share					Total dividend paid (for the year)	Dividend payout ratio (consolidated)	Dividends/net assets (consolidated)
	First quarter	Second quarter	Third quarter	End of term	Annual			
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)	(Millions of yen)	%	%
Fiscal 2007	-	-	-	10.00	10.00	116	-	1.4
Fiscal 2008	-	-	-	10.00	10.00	116	197.2	1.4
Fiscal 2009 (Forecast)	-	-	-	5.00	5.00	-	5,830.1	-

### 3. Consolidated forecasts for fiscal year to December 2009

(From January 1, 2009 to December 31, 2009)

(Percentage figures show projected year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Yen)
Six months ending June 30, 2009	6,200	(39.0)	(325)	-	(335)	-	(215)	-	(18.43)
Fiscal 2009	17,500	(15.6)	50	(61.9)	30	(89.5)	1	(98.3)	0.09

### 4. Others

(1) Significant changes in major subsidiary status during period under review (changes in specific subsidiaries affecting changes in scope of consolidation): None

New: —

Elimination: —

(Note) Please refer to page 12 ("Group organization") for further details.

(2) Changes in principles/methods of accounting treatment, presentation method or other items relating to preparation of consolidated financial statements (changes to basis of presentation and significant accounting policies)

1) Changes relating to revision of accounting standards: None

2) Changes other than those included in 1) above: None

(3) Number of issued shares (common stock)

1) Number of issued shares at end of term (including treasury stock):

December 2008 fiscal term: 11,849,899

December 2007 fiscal term: 11,849,899

2) Number of treasury shares at end of term:

December 2008 fiscal term: 189,668

December 2007 fiscal term: 189,347

(Reference) Summary of nonconsolidated operating results

**1. Nonconsolidated operating results** (From January 1, 2008 to December 31, 2008)

(1) Nonconsolidated financial results

(Fractional amounts discarded)  
(Percentage figures show year-on-year changes)

	Net sales		Operating income		Ordinary income	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
Fiscal 2008	12,990	-	88	-	444	-
Fiscal 2007	10,079	54.1	(461)	-	(334)	-

	Net income		Net income per share	Net income per share, fully diluted
	(Millions of yen)	%	(Yen)	(Yen)
Fiscal 2008	247	-	21.22	-
Fiscal 2007	(282)	-	(24.23)	-

(2) Nonconsolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	(Yen)
December 31, 2008	9,657	8,031	83.2	688.78
December 31, 2007	9,561	7,910	82.7	678.41

(N.B.) Total equity:

December 31, 2008: 8,031 million yen

December 31, 2007: 7,910 million yen

## Financial Performance

### 1. Analysis of results

#### (1) Results for the fiscal term ended December 31, 2008

The Japanese economy reflected the global economic slowdown during the fiscal year ended December 31, 2008, as the financial crisis triggered by the subprime mortgage crisis in the U.S. spread overseas and the failure of major U.S. financial institutions led to a rapid contraction of credit going into the year end in particular. Exacerbated by lower share prices, corporate earnings and hiring weakened, and retail consumption fell. The environment also remained difficult for the electronics industry, the PALTEK Group's business sector, with the worsening real economy being reflected in companies significantly curtailing or freezing their capital investment plans, a sharp drop in exports, and a sudden slowdown in retail consumption.

Given this market environment, the Group endeavored to return to profitability for the first time in three years through efforts to increase sales at its four solutions businesses – PLD, analog, ASSP, and memory. The fiscal year ended December 31, 2008 was also the final year under the three-year restructuring plan that began in 2006 with the change of supplier for the Group's core PLD solutions business.

The PLD solutions business focused on expanding the Group's PLD market share during its third year since signing a distribution contract with Xilinx, Inc., the global leader in PLD solutions, by proactively pursuing proposals for the use of Xilinx products among the customers for which it is responsible. Although sales are still below the level prior to the change of supplier, efforts to obtain contracts begun in the first year are beginning to show successful results. In particular, the medium-sized and large customers among which the Group previously had a low market share have contracted to use a large number of products, and with this solid growth in the customer base, sales are showing a solid recovery.

The analog solutions business's products are primarily used in the mobile terminal market, where the introduction of new pricing plans has led to higher terminal prices and the popularity of two-year and other long-term contracts has prolonged the replacement purchase cycle, and as a result sales have been weak. Sales also declined in the consumer products sector, which is experiencing intense price competition, as the use of the Group's products has lagged.

The ASSP solutions business has several products that have leading positions in the fields of next-generation wireless telecommunications and interface technologies. The business had a strong year, with products for broadband telecommunications giving a particular boost and solid growth in sales of products for touch panels. As a result, sales of ASSP solutions grew to a size comparable to the PLD solutions and analog solutions businesses, and this business will be emphasized going forward as the Group's third core business.

The memory solutions business experienced large price drops from a severe imbalance in the supply and demand environment from the middle of the previous fiscal year, and this situation continued during the fiscal year under review. Sales were therefore sluggish, but with the acquisition of a major contract in the consumer products sector during the second half, sales began to show a slight trend of recovery.

As a result of these activities, consolidated net sales for the fiscal year increased 0.3% to 20,726 million yen, with solid sales of PLD and ASSP solutions offsetting the significant decline in analog solutions sales.

In terms of profits, although sales growth was only marginal, there was a large improvement in consolidated operating income, to 131 million yen from the previous fiscal year's 300 million yen operating loss. The improvement was driven by sales of PLD and ASSP solutions, which have a relatively high gross profit margin, while the yen's strength in the first and fourth quarter led to improve gross profit margin, and the emphasis from the beginning of the year on raising operational efficiency and reducing costs yielded results.

Consolidated ordinary income came to 286 million yen, compared with the previous fiscal year's 222 million yen ordinary loss, on foreign exchange gains from the yen's rapid appreciation during the first and fourth quarter.

Consolidated net income totaled 59 million yen, from the previous fiscal year's 258 million yen net loss. This included 26 million yen from a litigation settlement at consolidated subsidiary NS Microelectronics Co., Ltd., and the drawing down of deferred tax assets at that subsidiary.

\* *PLD (Programmable Logic Device): a semiconductor that can be reconfigured for specific functions.*

*ASSP (Application Specific Standard Product): a high-performance semiconductor that is dedicated to specific applications.*

## (2) Outlook for the year ending December 2009

The outlook for the Japanese economy in 2009 is very uncertain, with the weakening in the global real economy since the end of 2008 becoming increasingly severe and the economic recession spreading more quickly than anticipated. The electronics industry is undergoing a rapid market contraction and there has been a succession of announcements of plant closings and consolidations, and of capital investment plans being postponed or frozen. We expect the extremely difficult business environment to continue, especially during the first half of the year.

In light of this difficult operating environment, the PALTEK Board of Directors passed a resolution on December 8, 2008, to merge two consolidated subsidiaries that are also primarily engaged in semiconductor sales, Alpha Electronics, Inc. and NS Microelectronics Co., Ltd.,

into PALTEK Corporation. Preparations for the merger are underway, with a scheduled effective date of April 1, 2009. This merger will create a stronger structure under which the PALTEK Group can provide customers with the engineering support and system-based solutions that are PALTEK's strengths. We also intend to consolidate business locations and distribution facilities to effectively provide highly cost-competitive logistics. Through this merger, the Group aims to further strengthen its operating base through the effective utilization of management resources, and to move forward while swiftly responding to drastic changes in the market environment.

Based on the foregoing, the PALTEK Group is forecasting the following consolidated results for the year ending December 31, 2009: net sales of 17,500 million yen (down 15.6% year on year), operating income of 50 million yen (down 61.9% year on year), ordinary income of 30 million yen (down 89.5% year on year), and net income of 1 million yen (down 98.3% year on year). Nonconsolidated forecasts are not being announced in light of the merger scheduled for April 1, 2009, and because they are not deemed significant as investment information.

## 2. Financial analysis

### (1) Assets, liabilities and net assets

Consolidated total assets as of December 31, 2008 stood at 10,321 million yen, declining 691 million yen from the end of the previous fiscal year. Although cash and bank deposits and consumption taxes receivable increased, the decline came primarily from a decrease in accounts receivable—trade.

Liabilities declined by 617 million yen from the end of the previous fiscal year to 2,183 million yen, on a decline in notes and accounts payable and the repayment of short-term bank loans.

Net assets declined by 74 million yen from the end of the previous fiscal year to 8,137 million yen, which included the booking of 59 million yen in net income and dividend payments of 116 million yen.

### (2) Cash flows

Cash and cash equivalents outstanding on a consolidated basis as of the end of the period under review totaled 2,466 million yen, for a year-on-year increase of 234 million yen.

The respective cash flows and primary factors affecting them are as follows:

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

Net cash provided by operating activities amounted to 664 million yen (compared with a 548 million yen net outflow in the previous fiscal year), which included 267 million yen in income

before income taxes and minority interests (199 million yen loss in the previous fiscal year), and progress in the collection of accounts receivable—trade.

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

Net cash used in investing activities amounted to 82 million yen (compared with a 101 million yen net inflow in the previous fiscal year), mainly reflecting the placement of time deposits.

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

Net cash provided by financing activities amounted to 346 million yen (compared with a 566 million yen net inflow in the previous fiscal year), which included bank loans as well as dividend payments.

Trends in cash flow-related indices for the PALTEK Group are shown below.

	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008
Equity ratio	68.4%	65.0%	77.8%	74.6%	78.8%
Equity ratio based on market prices	59.0%	40.6%	51.0%	44.3%	31.1%
Year required to redeem liabilities	1.5	2.4	0.0	-	0.9
Interest-coverage ratio	69.4	45.5	211.0	-	45.8

*(Notes)*

1. *Equity ratio: Total equity/total assets*

2. *Equity ratio based on market prices: Market capitalization/total assets*

3. *Years required to redeem liabilities: Interest-bearing liabilities/operating cash flow*

4. *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 closing price on the final day of the fiscal term by the number of issued shares on the same day.*

(3) *For “operating cash flow,” we use the figure for “net cash 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.*

**3. Fundamental policy regarding dividends and dividends for the reporting and following fiscal years**

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, and maintain continuous earnings. With respect to dividend payouts, the Company will strive to maintain a stable dividend, while considering the appropriateness of its dividend payout ratio relative to the Group’s results.

As noted above in the financial performance for the full fiscal year ended December 31, 2008, the Group recorded consolidated net income of 59 million yen from the drawing down of deferred tax assets at consolidated subsidiary NS Microelectronics Co., Ltd., marking the achievement of the turnaround to profitability targeted in the three-year restructuring plan launched in 2006.

Nonconsolidated results also recovered, with net income of 247 million yen. Accordingly, the Company is scheduled to pay a year-end dividend of 10 yen per share. With regard to the dividend for the next term, faced with a very challenging business environment, the Group will endeavor to streamline its operations and improve its earnings structure by merging subsidiaries into the Parent company. A continuous full-year profit is forecasted, although at a very low level. Accordingly, the Company plans to pay a year-end dividend of 5 yen per share in the year ending December 2009.

#### **4. 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 should come to pass. This section includes forward-looking statements, which are based on judgments made as of the end of the term under review.

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

The customers of the PALTEK Group principally comprise companies in the Japanese electronics industry. The financial performance of the Group is therefore 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 earnings structure 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**

The PALTEK Group's main suppliers are National Semiconductor Corporation and Xilinx, Inc., and products from these two companies accounted for approximately 31% and 25% of sales respectively for the period under review. The Group currently enjoys stable relations with both National Semiconductor and Xilinx, but there is a possibility that Group results would be impacted if it became difficult to maintain these relationships because of a review of distribution policies, restructuring, etc. at those companies. The contracts with National

Semiconductor were previously concluded at the subsidiaries Alpha Electronics, Inc. and NS Microelectronics Co., Ltd., but with the merger of these two subsidiaries into PALTEK Corporation scheduled for April 1, 2009, a distribution contract was concluded between National Semiconductor and PALTEK Corporation on February 1, 2009.

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

The PALTEK Group possesses various information assets that are important tools for deploying its sales strategies. The Company has for some time positioned information security as a priority task, establishing a privacy policy and introducing various technological measures for information security. In addition, to set up a more robust information management system, the Company obtained ISMS certification\* in December 2004 and upgraded to the ISO27001 (JIS Q 27001) standard in November 2007 along with the conversion of the ISMS certification to an ISO standard. Through these activities, the Company has endeavored to prevent breaches in the security surrounding this information through a variety of “soft” and “hard” measures, including introducing encryption software for notebook computers and regular information securities education to heighten employees’ awareness of the appropriate ways to handle information assets. If, however, despite the Company’s best efforts, information were to fall into other hands due to an unintended disruption of systems, mistaken processing, an external intrusion or other unforeseen events, the PALTEK Group’s financial performance could suffer from the resulting loss of public trust in the Group or from other such factors as the need to pay indemnification for damages.

\* *ISMS (information security management system) Certification: A private sector-driven third-party certification system started by Japan Information Processing Development Corporation (JIPDEC) based on the "Introduction of International Standards for Information Security Management and the Reform of the Secure Information Systems Accreditation Scheme for Information-Processing Service Companies" announced in July 2000 by the Ministry of Economy, Trade and Industry (METI).*

(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. Such measures cannot, however, guarantee the elimination of all foreign exchange risks. Consequently, sudden and rapid fluctuations in the 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 engineering support capabilities and the marketing prowess that enables it to tailor its services to individual customers. The Group intends to maintain this policy going ahead and further develop our businesses.

The semiconductor industry is, however, characterized by rapid technological innovation and intense competition. In such an environment, it is becoming increasingly difficult to prevail over the competition in the battle to win new influential suppliers. Even if agreements can be reached with such suppliers and their products begin to be supplied to customers, 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 its shortened life cycles. Consequently, while the PALTEK Group will continue to keep a close eye on market and technology trends and endeavor to achieve the targets set in its projections by acquiring competitive new products, its financial performance could be affected by delays in getting the businesses that use these products of new suppliers up and running.

(6) Impact of the shift of production facilities overseas

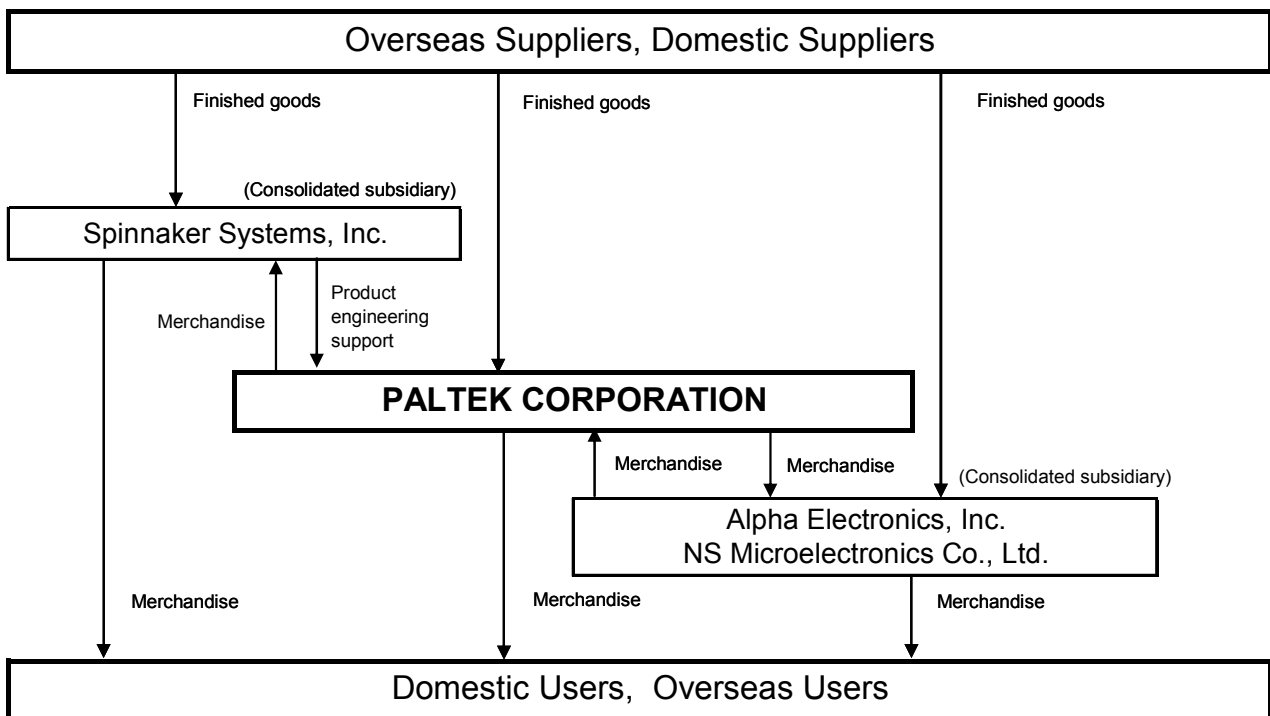
The PALTEK Group sells semiconductors and other products to domestic electronic manufacturers, who, motivated by lower costs and rapidly growing markets, are increasingly shifting their manufacturing plants to overseas locations, principally in China and other parts of Asia.

In order to continue to provide these customers with products and engineering support, the PALTEK Group established Alpha Electron (HK) Co., Ltd. in Hong Kong in March 2002. NS Microelectronics Co., Ltd., which the Company acquired on May 16, 2006, and made a Group company, has a branch office in Singapore. The PALTEK Group uses this branch office as its sales and distribution base for Southeast Asia. Should there be a further shift overseas of the product development of the Group's customers in Japan, however, and should this shift be to regions beyond the reach of the PALTEK Group's sales operations, it could have an impact on the Group's financial performance.

## 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.

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



## **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 its customers, suppliers, employees, shareholders, and the local communities in which it operates.

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. More than just a distributor, the PALTEK Group endeavors to provide its customers with optimal solutions by supporting the development activities with a high level of technology and by proposing system-based solutions that take into consideration the entire architecture of each customer's electronic equipment.

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

### **2. Targeted financial ratios**

The PALTEK Group has partially revised its previous medium-term goals of consolidated sales of 50 billion yen and an operating margin of 10%. The top priority going forward will be to strengthen the Group's operating base and to build a structure to secure stable earnings, and these targeted financial ratios have therefore been revised to consolidated sales of 50 billion yen and an operating margin of 5%.

### **3. Medium- to long-term management strategies**

There has been a notable emergence of the electronics industry, which the PALTEK Group is part of, in Korea, China, and India of course, but also particularly in other Asian countries. As a result, global competition in the industry is intensifying in such aspects as product ideas, design and production technology and in pricing. In response to this business environment, the PALTEK Group will pursue high-value-added sales based on a firm technological understanding of all the devices of its customers, which develop or sell electronics products that are evolving on a daily basis. The Group will not merely sell the semiconductor products or software it handles, it will make proposals covering component selection to development methods and provide related development support.

The PALTEK Group possesses a deep level of knowledge and experience regarding digital semiconductors, centered on PLDs, accumulated over the years. Also, our group company has strong engineering support capabilities for analog semiconductors. By combining these capabilities, it will carry out sales activities based on a firm technological background. The Group will concentrate especially on the industrial equipment market, which Japanese electronic manufacturers specialize in and hold a large market share of, as well as the communications infrastructure market. The industrial equipment market features medical, broadcasting, and measurement equipment that require high performance and high speed.

#### **4. Issues requiring action**

The market environment for the electronics industry, in which the PALTEK Group operates, is undergoing rapid globalization, and intense competition is spreading across a variety of areas including the speed of product launches, function, cost and design. In addition, the development of the semiconductor products that the Group handles, and of the electronic equipment in which they are used, is becoming increasingly complicated as advances are made in terms of both speed and functions.

Against this backdrop, PALTEK's customers for semiconductor products are increasingly looking for system-based solutions that take into account the customer's basic designs and overall equipment, rather than simply buying PLDs and other logic products, analog semiconductors, memory products, etc. Given this environment, the Group announced on December 8, 2008, that Alpha Electronics, Inc. and NS Microelectronics Co., Ltd., which are primarily engaged in the sale of semiconductor products, would be merged into PALTEK Corporation. By combining the management of these companies, the Group will create an integrated entity with a stronger structure for product sales along with the engineering support and system-based solutions that are PALTEK Corporation's strengths. We also intend to consolidate business locations and distribution facilities to effectively provide highly cost-competitive logistics. Through this merger, the Group aims to further strengthen its operating base through the effective utilization of management resources, and to move forward while swiftly responding to drastic changes in the market environment.

#### **5. Establishment and Operation of Internal Control System**

Because of the duplication of items reported in "Basic Policies Regarding Internal Control Systems and their Operation" in the Corporate Governance Report stipulated in Article 8-3 of the Securities Listing Regulations and in Article 10, Paragraph 3 of the Timely Disclosure Regulations, those items have been omitted in this document.

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

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

**Consolidated financial statements****Consolidated balance sheet**

Thousands of yen	December 31, 2007	%	December 31, 2008	%
<b>Current assets</b>				
Cash and bank deposits	2,295,984		2,594,823	
Notes and accounts receivable	5,070,103		4,175,960	
Inventories	1,992,042		1,970,822	
Consumption taxes receivable	280,084		471,568	
Deferred tax assets	41,385		200,876	
Others	219,922		175,045	
Allowance for doubtful accounts	(540)		(1,820)	
	<u>9,898,982</u>	89.9	<u>9,587,276</u>	92.9
<b>Fixed assets</b>				
<b>Tangible fixed assets</b>				
Buildings	151,313		143,194	
Accumulated depreciation	111,994		118,060	
	<u>39,319</u>		<u>25,134</u>	
Vehicle equipment	920		-	
Accumulated depreciation	874		-	
	<u>46</u>		<u>-</u>	
Furniture and fixtures	380,916		372,265	
Accumulated depreciation	334,677		338,681	
	<u>46,239</u>		<u>33,584</u>	
Land	598		598	
	<u>86,202</u>	0.8	<u>59,316</u>	0.6
<b>Intangible fixed assets</b>				
Goodwill	55,044		39,345	
Others	54,693		49,382	
	<u>109,737</u>	1.0	<u>88,727</u>	0.8
<b>Investments and other assets</b>				
Investment securities	92,876		55,501	
Deferred tax assets	380,222		45,731	
Others	452,059		494,286	
Allowance for doubtful accounts	(7,012)		(9,344)	
	<u>918,146</u>	8.3	<u>586,175</u>	5.7
<b>Total fixed assets</b>	<u>1,114,087</u>	10.1	<u>734,220</u>	7.1
<b>Total assets</b>	<u>11,013,070</u>	100.0	<u>10,321,497</u>	100.0

PALTEK CORPORATION

Thousands of yen	December 31, 2007	%	December 31, 2008	%
<b>Current liabilities</b>				
Notes and accounts payable	1,280,221		809,822	
Short-term bank loans	780,000		550,000	
Income taxes payable	11,017		14,014	
Accrued bonuses	55,047		50,762	
Others	333,767		436,607	
	2,460,053	22.3	1,861,206	18.0
<b>Long-term liabilities</b>				
Negative goodwill	566		404	
Liability for employees' retirement benefits	54,700		35,980	
Liability for directors' and corporate auditors' retirement benefits	247,453		247,453	
Others	38,462		38,652	
	341,182	3.1	322,491	3.2
<b>Total liabilities</b>	2,801,235	25.4	2,183,698	21.2
<b>Net assets</b>				
<b>Shareholders' equity</b>				
Common stock	1,339,634	12.2	1,339,634	13.0
Capital surplus	2,698,526	24.5	2,698,526	26.1
Retained earnings	4,297,642	39.0	4,240,170	41.1
Treasury stock	(130,599)	(1.2)	(130,708)	(1.3)
	8,205,203	74.5	8,147,623	78.9
<b>Valuation/translation gains (losses)</b>				
Unrealized gains (losses) on securities–net	6,471	0.1	(8,259)	(0.1)
Deferred hedging gains (losses)	159	0.0	(1,564)	(0.0)
	6,631	0.1	(9,824)	(0.1)
<b>Total net assets</b>	8,211,834	74.6	8,137,798	78.8
<b>Total liabilities and net assets</b>	11,013,070	100.0	10,321,497	100.0

**Consolidated statement of income**

Thousands of yen	Year ended December 31, 2007	%	Year ended December 31, 2008	%
<b>Net sales</b>	20,655,287	100.0	20,726,339	100.0
<b>Cost of sales</b>	17,938,774	86.8	17,642,938	85.1
Gross profit	2,716,513	13.2	3,083,400	14.9
<b>Selling, general and administrative expenses</b>				
Provision for doubtful accounts	199		5,120	
Salary	1,055,615		1,073,159	
Provision for bonuses	54,428		50,258	
Provision for directors' and corporate auditors' retirement benefits	1,563		-	
Rent expenses	316,547		310,785	
Amortization of goodwill	15,699		15,699	
Others	1,572,978		1,496,982	
	3,017,032	14.7	2,952,005	14.3
Operating income (loss)	(300,518)	(1.5)	131,394	0.6
<b>Nonoperating income</b>				
Interest income	9,040		4,786	
Dividend income	185		178	
Foreign exchange gains	85,541		159,993	
Gain on sale of investment securities	1,335		14,759	
Interest on refunds of consumption taxes	483		872	
Amortization of negative goodwill	799		161	
Others	29,844		14,031	
	127,229	0.6	194,782	1.0
<b>Nonoperating expenses</b>				
Interest expenses	12,880		14,683	
Commissions paid	16,942		3,466	
Losses on assignment of accounts receivable	13,211		15,027	
Others	5,911		6,333	
	48,945	0.2	39,511	0.2
Ordinary income (loss)	(222,235)	(1.1)	286,665	1.4

PALTEK CORPORATION

Thousands of yen	Year ended December 31, 2007	%	Year ended December 31, 2008	%
<b>Extraordinary income</b>				
Gain on revision of earnings from previous period	-		9,284	
Gain on sale of fixed assets	50		-	
Gain on reversal of directors' and corporate auditors' retirement benefits	75		-	
Gain on sale of investment securities	48,932		9,559	
Gain on cancellation of derivatives	4,741		-	
Gain on reversal of guarantee liabilities	7		6	
	53,807	0.3	18,850	0.1
<b>Extraordinary losses</b>				
Loss on revision of earnings from previous period	3,030		-	
Loss on sale of fixed assets	-		80	
Loss on disposal of fixed assets	2,273		843	
Impairment losses	1,691		10,467	
Loss on sale of investment securities	2,734		450	
Loss on devaluation of investment securities	21,015		-	
Litigation settlement	-		26,188	
	30,746	0.2	38,029	0.2
Income (loss) before income taxes and minority interests	(199,173)	(1.0)	267,486	1.3
Income taxes—current	41,852		21,945	
Income taxes—deferred	16,947		186,406	
	58,799	0.2	208,352	1.0
Minority interest in income of consolidated subsidiaries	33	0.0	-	-
Net income (loss)	(258,007)	(1.2)	59,133	0.3

**Consolidated statement of changes in net assets***Year ended December 31, 2007*

Thousands of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec. 31, 2006	1,339,634	2,698,526	4,672,259	(130,421)	8,579,998
Changes during the term					
Dividends			(116,609)		(116,609)
Net income (loss)			(258,007)		(258,007)
Acquisition of treasury stock				(177)	(177)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	(374,617)	(177)	(374,794)
Balance as of Dec. 31, 2007	1,339,634	2,698,526	4,297,642	(130,599)	8,205,203

Thousands of yen	Valuation/translation gains (losses)				Minority interests	Total net assets
	Unrealized gains (losses) on securities-net	Deferred hedging gains (losses)	Total valuation/translation gains (losses)			
Balance as of Dec. 31, 2006	36,032	-	36,032	64,705	8,680,736	
Changes during the term						
Dividends					(116,609)	
Net income (loss)					(258,007)	
Acquisition of treasury stock					(177)	
Other changes in non-shareholders' equity items during the term (net)	(29,560)	159	(29,401)	(64,705)	(94,107)	
Total changes during the term	(29,560)	159	(29,401)	(64,705)	(468,901)	
Balance as of Dec. 31, 2007	6,471	159	6,631	-	8,211,834	

PALTEK CORPORATION

*Year ended December 31, 2008*

Thousands of yen	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance as of Dec. 31, 2007	1,339,634	2,698,526	4,297,642	(130,599)	8,205,203
Changes during the term					
Dividends			(116,605)		(116,605)
Net income (loss)			59,133		59,133
Acquisition of treasury stock				(109)	(109)
Other changes in non-shareholders' equity items during the term (net)					
Total changes during the term	-	-	(57,471)	(109)	(57,580)
Balance as of Dec. 31, 2008	1,339,634	2,698,526	4,240,170	(130,708)	8,147,623

Thousands of yen	Valuation/translation gains (losses)			Total net assets
	Unrealized gains (losses) on securities-net	Deferred hedging gains (losses)	Total valuation/translation gains (losses)	
Balance as of Dec. 31, 2007	6,471	159	6,631	8,211,834
Changes during the term				
Dividends				(116,605)
Net income (loss)				59,133
Acquisition of treasury stock				(109)
Other changes in non-shareholders' equity items during the term (net)	(14,731)	(1,723)	(16,455)	(16,455)
Total changes during the term	(14,731)	(1,723)	(16,455)	(74,036)
Balance as of Dec. 31, 2008	(8,259)	(1,564)	(9,824)	8,137,798

**Consolidated statement of cash flows**

Thousands of yen	Year ended December 31, 2007	Year ended December 31, 2008
<b>Net cash from operating activities</b>		
Income (loss) before income taxes and minority interests	(199,173)	267,486
Depreciation	52,081	45,958
Amortization of goodwill	15,699	15,699
Amortization of negative goodwill	(799)	(161)
Impairment losses	1,691	10,467
Increase in allowance for doubtful accounts	101	4,998
Decrease in accrued bonuses	(2,165)	(4,284)
Increase (decrease) in liability for employees' retirement benefits	9,847	(18,719)
Decrease in liability for directors' and corporate auditors' retirement benefits	(42,734)	-
Interest and dividends income	(9,225)	(4,964)
Interest expenses	12,880	14,683
Foreign exchange gains	(4,142)	-
Foreign exchange losses	-	695
Loss on valuation of investment securities	21,015	-
Gain on sale of investment securities	(50,267)	(24,319)
Loss on sale of investment securities	2,734	450
Gain on sale of tangible fixed assets	(50)	-
Loss on sale of tangible fixed assets	-	80
Loss on disposal of tangible fixed assets	2,158	843
Loss on disposal of intangible fixed assets	115	-
Gain on cancellation of derivatives	(4,741)	-
Litigation settlement	-	26,188
Decrease (increase) in accounts receivable —trade	(1,098,406)	885,632
Increase in inventories	1,246,046	13,338
Decrease in accounts payable — trade	(150,100)	(470,399)
Increase in consumption tax receivable	(90,857)	(96,817)
Decrease (increase) in advance payments	9,964	(1,031)
Increase (decrease) in advances	12,257	(10,968)
Others	(113,579)	10,702
	(379,652)	665,558
Interest and dividends received	8,611	4,720
Interest paid	(13,178)	(14,497)
Litigation settlement paid	-	(26,188)
Tax refunds	61,998	64,690
Income taxes paid	(226,609)	(29,587)
	(548,829)	664,697

PALTEK CORPORATION

Thousands of yen	Year ended December 31, 2007	Year ended December 31, 2008
<b>Net cash from investing activities</b>		
Increase in time deposits	(24,098)	(154,137)
Decrease in time deposits	-	90,120
Purchases of investment securities	(2,230)	-
Proceeds from sale of investment securities	146,755	34,393
Payments for acquisition of affiliate's equity	(64,546)	-
Purchases of tangible fixed assets	(8,075)	(8,643)
Proceeds from sale of tangible fixed assets	137	3
Purchases of intangible fixed assets	(27,490)	(15,318)
Payments for loans	(959)	(872)
Proceeds from collection of loans	914	356
Proceeds from cancellation of insurance policies	41,865	7,084
Increase in other investments	(37,585)	(36,257)
Decrease in other investments	77,031	361
	101,717	(82,907)
<b>Net cash from financing activities</b>		
Net increase (decrease) in short-term bank loans	690,000	(230,000)
Repayment of long-term bank loans	(5,820)	-
Acquisition of treasury stock	(177)	(109)
Cash dividends paid to minority shareholders	(555)	-
Cash dividends paid	(117,270)	(116,499)
	566,176	(346,608)
Effect of exchange rate changes on cash and cash equivalents	4,199	(358)
Net increase in cash and cash equivalents	123,263	234,822
Cash and cash equivalents at beginning of term	2,108,616	2,231,879
Cash and cash equivalents at end of term	2,231,879	2,466,702

**Nonconsolidated financial statements****Nonconsolidated balance sheet**

Thousands of yen	December 31, 2007	%	December 31, 2008	%
<b>Current assets</b>				
Cash and bank deposits	1,166,662		1,360,095	
Notes receivable	173,141		122,717	
Accounts receivable	2,503,841		2,609,725	
Merchandise	840,943		1,105,490	
Supplies	7,363		7,436	
Prepaid expenses	38,857		40,777	
Deferred tax assets	38,186		196,806	
Short-term loans	2,400,000		2,000,000	
Other accounts receivable	96,852		103,635	
Income tax refunds receivable	2,819		39	
Consumption taxes receivable	260,629		441,944	
Others	1,491		1,485	
Allowance for doubtful accounts	(431)		(466)	
	<u>7,530,356</u>	78.8	<u>7,989,687</u>	82.7
<b>Fixed assets</b>				
<b>Tangible fixed assets</b>				
Buildings	118,858		115,490	
Accumulated depreciation	89,144		93,710	
	<u>29,713</u>		<u>21,780</u>	
Furniture and fixtures	335,968		328,776	
Accumulated depreciation	296,963		300,497	
	<u>39,004</u>		<u>28,279</u>	
	<u>68,718</u>	0.7	<u>50,059</u>	0.5
<b>Intangible fixed assets</b>				
Telephone rights	2,577		2,577	
Software	37,761		31,800	
	<u>40,338</u>	0.4	<u>34,377</u>	0.4

PALTEK CORPORATION

Thousands of yen	December 31, 2007	%	December 31, 2008	%
<b>Investments and other assets</b>				
Investment securities	71,125		53,329	
Investments in subsidiaries and affiliated companies	1,185,866		1,185,866	
Claims provable in bankruptcy, claims provable in rehabilitation and other	161		495	
Long-term prepaid expenses	120		244	
Deferred tax assets	363,419		24,247	
Fixed leasehold deposits	131,775		131,921	
Cash value of insurance policies	169,481		186,429	
Long-term loans to employees	624		1,139	
Allowance for doubtful accounts	(161)		(459)	
	1,922,412	20.1	1,583,212	16.4
<b>Total fixed assets</b>	2,031,469	21.2	1,667,649	17.3
<b>Total assets</b>	9,561,826	100.0	9,657,337	100.0

PALTEK CORPORATION

Thousands of yen	December 31, 2007	%	December 31, 2008	%
<b>Current liabilities</b>				
Accounts payable	400,356		479,100	
Short-term bank loans	730,000		580,000	
Other payables	153,207		209,633	
Accrued expenses	30,495		34,592	
Income taxes payable	10,747		13,373	
Deposits received	25,531		36,697	
Accrued bonuses	36,793		29,049	
Others	4,995		7,494	
	<u>1,392,128</u>	14.6	<u>1,389,941</u>	14.4
<b>Long-term liabilities</b>				
Liability for employees' retirement benefits	24,627		1,358	
Liability for directors' and corporate auditors' retirement benefits	196,022		196,022	
Others	38,462		38,652	
	<u>259,111</u>	2.7	<u>236,032</u>	2.4
<b>Total liabilities</b>	<u>1,651,240</u>	17.3	<u>1,625,974</u>	16.8
<b>Net assets</b>				
<b>Shareholders' equity</b>				
Common stock	1,339,634	14.0	1,339,634	13.9
Capital surplus				
Capital reserve	1,678,512		1,678,512	
	<u>1,678,512</u>	17.6	<u>1,678,512</u>	17.4
Retained earnings				
Legal reserve	46,100		46,100	
Other retained earnings				
Special reserves	5,400,000		5,400,000	
Retained earnings carried forward	(423,224)		(292,351)	
	<u>5,022,875</u>	52.5	<u>5,153,748</u>	53.4
Treasury stock	(130,599)	(1.4)	(130,708)	(1.4)
	<u>7,910,423</u>	82.7	<u>8,041,187</u>	83.3
<b>Valuation/translation gains (losses)</b>				
Unrealized gains (losses) on securities - net	3	0.0	(8,259)	(0.1)
Deferred hedging gains (losses)	159	0.0	(1,564)	(0.0)
	<u>162</u>	0.0	<u>(9,824)</u>	(0.1)
<b>Total net assets</b>	<u>7,910,586</u>	82.7	<u>8,031,362</u>	83.2
<b>Total liabilities and net assets</b>	<u>9,561,826</u>	100.0	<u>9,657,337</u>	100.0

**Nonconsolidated statement of income**

Thousands of yen	Year ended December 31, 2007	%	Year ended December 31, 2008	%
<b>Net sales</b>	10,079,733	100.0	12,990,044	100.0
<b>Cost of sales</b>				
Beginning inventory—Merchandise	1,664,350		840,943	
Purchase of merchandise	7,753,220		11,260,069	
Processing cost	42,447		32,420	
Commissions paid	-		7,724	
	9,460,019		12,141,158	
Transfers to other accounts	8,383		7,881	
Ending inventory—Merchandise	840,943		1,105,490	
	8,610,692	85.4	11,027,786	84.9
Gross profit	1,469,040	14.6	1,962,258	15.1
<b>Selling, general and administrative expenses</b>				
Provision for doubtful accounts	198		454	
Directors' and corporate auditors' salaries	146,159		126,396	
Salary	689,417		671,266	
Bonuses	171,325		204,808	
Employee benefit expenses	108,911		112,420	
Provision for bonuses	36,175		28,545	
Rent expenses	223,580		222,822	
Depreciation	39,384		33,897	
Commissions paid	89,845		93,785	
Others	426,012		379,040	
	1,931,008	19.2	1,873,437	14.4
Operating income (loss)	(461,968)	(4.6)	88,820	0.7
<b>Nonoperating income</b>				
Interest income	28,563		31,006	
Dividend income	5,396		1	
Foreign exchange gains	99,444		319,750	
Business commission income from associate companies	18,651		14,399	
Gain on sale of investment securities	1,335		14,759	
Others	14,209		4,962	
	167,600	1.7	384,879	2.9
<b>Nonoperating expenses</b>				
Interest expenses	11,341		14,108	
Commissions paid	16,942		3,323	
Loss on assignment of promissory notes	2,633		2,609	
Losses on assignment of receivables	6,196		6,800	
Others	3,274		2,325	
	40,389	0.4	29,167	0.2
Ordinary income (loss)	(334,757)	(3.3)	444,532	3.4

PALTEK CORPORATION

Thousands of yen	Year ended December 31, 2007	%	Year ended December 31, 2008	%
<b>Extraordinary income</b>				
Gain on sale of investment securities	48,932		-	
Gain on reversal of directors' and corporate auditors' retirement benefits	75		-	
Gain on reversal of guarantee liabilities	7		6	
	49,015	0.5	6	0.0
<b>Extraordinary losses</b>				
Loss on disposal of fixed assets	1,308		338	
Impairment losses	1,691		4,153	
Loss on valuation of investment securities	20,000		-	
Loss on sale of investment securities	2,734		450	
	25,735	0.3	4,942	0.0
Income (loss) before income taxes	(311,476)	(3.1)	439,596	3.4
Income taxes - current	4,730		4,730	
Income taxes - deferred	(33,708)		187,388	
	(28,978)	(0.3)	192,118	1.5
Net income (loss)	(282,498)	(2.8)	247,477	1.9

## Nonconsolidated statement of changes in net assets

Year ended December 31, 2007

Thousands of yen	Shareholders' equity								
	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
	Common stock	Capital reserve	Legal reserve	Other retained earnings		Total retained earnings			
				Special reserves	Retained earnings carried forward				
Balance as of Dec 31, 2006	1,339,634	1,678,512	46,100	5,400,000	(24,116)	5,421,983	(130,421)	8,309,709	
Changes during the term									
Dividends					(116,609)	(116,609)		(116,609)	
Net income (loss)					(282,498)	(282,498)		(282,498)	
Acquisition of treasury stock							(177)	(177)	
Other changes in non-shareholders' equity items during the term (net)									
Total changes during the term	-	-	-	-	(399,107)	(399,107)	(177)	(399,285)	
Balance as of Dec 31, 2007	1,339,634	1,678,512	46,100	5,400,000	(423,224)	5,022,875	(130,599)	7,910,423	
Thousands of yen	Valuation/translation gains (losses)				Total valuation/translation gains (losses)	Total net assets			
	Unrealized gains (losses) on securities - net	Deferred hedging gains (losses)							
Balance as of Dec 31, 2006		30,192		-	30,192	8,339,901			
Changes during the term									
Dividends						(116,609)			
Net income (loss)						(282,498)			
Acquisition of treasury stock						(177)			
Other changes in non-shareholders' equity items during the term (net)		(30,189)		159	(30,030)	(30,030)			
Total changes during the term		(30,189)		159	(30,030)	(429,315)			
Balance as of Dec 31, 2007		3		159	162	7,910,586			

PALTEK CORPORATION

*Year ended December 31, 2008*

Thousands of yen	Shareholders' equity								
	Capital surplus		Retained earnings					Treasury stock	Total shareholders' equity
	Common stock	Capital reserve	Legal reserve	Other retained earnings		Total retained earnings			
				Special reserves	Retained earnings carried forward				
Balance as of Dec 31, 2007	1,339,634	1,678,512	46,100	5,400,000	(423,224)	5,022,875	(130,599)	7,910,423	
Changes during the term									
Dividends					(116,605)	(116,605)		(116,605)	
Net income (loss)					247,477	247,477		247,477	
Acquisition of treasury stock							(109)	(109)	
Other changes in non-shareholders' equity items during the term (net)									
Total changes during the term	-	-	-	-	130,872	130,872	(109)	130,763	
Balance as of Dec 31, 2008	1,339,634	1,678,512	46,100	5,400,000	(292,351)	5,153,748	(130,708)	8,041,187	
Thousands of yen	Valuation/translation gains (losses)				Total valuation/translation gains (losses)	Total net assets			
	Unrealized gains (losses) on securities - net	Deferred hedging gains (losses)							
Balance as of Dec 31, 2007		3	159		162	7,910,586			
Changes during the term									
Dividends						(116,605)			
Net income (loss)						247,477			
Acquisition of treasury stock						(109)			
Other changes in non-shareholders' equity items during the term (net)		(8,263)	(1,723)		(9,986)	(9,986)			
Total changes during the term		(8,263)	(1,723)		(9,986)	120,776			
Balance as of Dec 31, 2008		(8,259)	(1,564)		(9,824)	8,031,362			