

JASDAQ

Code : 7587

To Our Shareholders
PALTEK REPORT
Half-year Ended June 30, 2010





President and
Representative Director
Tadahito Takahashi

Financial Highlights

(Millions of yen)

	2009/6	2009/12	2010/6	2010/12 (E)
Net sales	6,672	14,762	8,021	17,200
Operating income (loss)	(230)	(182)	147	265
Ordinary income (loss)	(185)	(103)	186	285
Net income (loss)	(84)	(60)	95	155

(E): Estimated figure

We created a more robust management structure while speeding up sales operations by merging group companies

Q1: What were your results for the first half of the year 2010?

The electronics industry experienced a sharp drop in the wake of the global financial crisis precipitated by the collapse of Lehman Brothers, but a wide range of economic-stimulus measures in Japan and other countries, starting in mid-2009, have created a gradual but continuing trend on an upswing. Starting in 2010, demand picked up for flat-panel televisions in particular. There has also been investment in telecommunication infrastructure, and the market has been growing in such segments as smart phones and other new mobile devices.

Amid this market environment, the PALTEK Group seized on the opportunity offered by active development of next-generation telecommunication infrastructure, and actively offered our customers in the communications field solution proposals and technical support. There has also been on a clear upswing in the sector of industrial machinery, driven by strong capital investment and economic recovery in Asian countries. We therefore

focused our sales efforts on medium-sized businesses with large market shares and strong technical capabilities, while in the sector of industrial machinery, we focused on the large number of smaller businesses, and worked to expand our customer base.

As a result of these measures, net sales for the consolidated interim term under review in all solution fields were on the track of recovery, and the communications field in particular made a contribution to our increase in sales. Net sales were 8,021 million yen, a 20.2% increase year on year.

In terms of profit and loss, our profit is also above our initial plan from the beginning of the year, and operating income has improved greatly. This has been due to our increased net sales, as well as an improved gross profit margin owing to the strong yen, merger of two subsidiaries in the previous fiscal year, and greatly improved break-even point thanks to thorough cost management.

Q2: What is the full-year forecast like?

We are planning for a further increase in net sales in the second half in the PLD and ASSP products fields. Number of customer projects in the application fields of next-generation telecommunication infrastructure as well as in the sector of the industrial machinery, which includes security equipment, broadcasting application, and measuring devices will finally come to mass-production stage and issue purchase orders to PALTEK

as a result of several years of design proposals and technical support. The semiconductor industry as a whole is recovering, driven by strong demand in China, India, and the other emerging economies. Although this presents uncertainty, such as the supply capacity of our suppliers and uncertainties over such factors as the strong yen, at the current stage we expect performance to be in general accordance with our plan.

In Japan, there are many companies with superb environmental technologies. We intend to create a network to drive the world with smart grids.**Q3: What markets will you focus on moving forward?**

The PALTEK Group is now actively committed to the “smart grid” market. A “smart grid” uses the latest telecommunications, power-transmission, power-storage, and other technologies to optimize the demand and supply of electric power. It is a general term for next-generation power grids that promote the most efficient use of energy.

Japan is poor in resources, so we have been working for many years to achieve the most energy efficiency possible using the least energy sources. During 1960s and 1970s, Japanese people experienced many hardships such as illnesses and other issues caused by water and air pollution in the shadow of rapid economic growth, and we responded by developing technologies to prevent and clean up such pollution. In the 1970s, the experience of the oil crises laid the foundation for our commitment to achieving the world's highest energy

efficiency. Sometimes spurred by these hardships and difficult experiences, many Japanese companies have developed world-class environmental technologies through steady efforts. I strongly feel that these advanced technologies are now needed to address a number of issues amid today's global economic growth, such as destruction of the environment and global warming.

The PALTEK Group is advancing a wide range of initiatives to establish Japanese companies' strengths in environment technology in the new “smart grid” market faster, more cheaply, and more efficiently. As we work to expand our business in this growth field, we will be committed to achieving the management philosophy we have maintained since our founding: “kyo-sei,” or living together with a huge variety of entities.

New Initiatives

The PALTEK Group will offer the solutions our customers need, with a focus on the following three fields.

Design Service Business

Telecommunication
Infrastructure Business

Smart Energy Solution

We will expand our business in growth fields!

1 Reinforcing the Design Service Business

■ We have developed the “HYUGA II” original evaluation board

The PALTEK Group is offering an evaluation board that we developed in order to support our customers' design development. The new “HYUGA II (DSP evaluation board)” is used to validate high-speed signal processing of wireless communication systems, image compression, and other applications. It supports the development of telecommunications infrastructure devices and broadcasting application, including next-generation LTE communications. This enables our customers to shorten their development cycles and reduce their costs. We are also able to provide designs based on this evaluation board under contract at our customers' request, and provide even greater support for our customers' development.



HYUGA II (DSP evaluation board)

2 Telecommunication Infrastructure Business

The PALTEK Group has long focused on the telecommunication infrastructure market, having honed our support capabilities in this market. We have newly signed distributor agreements with two semiconductor manufacturers, in order to further enhance our capabilities in this field.

■NetLogic Microsystems, Inc.

We have signed a distributor agreement with NetLogic Microsystems, Inc, with an impressive record of accomplishment in the fields of knowledge-based processors and network processors, used in such applications as telecommunication infrastructure and data centers.



■ADD Semiconductor

We have begun trading with ADD Semiconductor, one of Europe's leading manufacturers of low-speed power-line communications (PLC) semiconductors, which is grabbing attention in the field of energy management for lighting systems, office buildings and homes etc. moving forward.



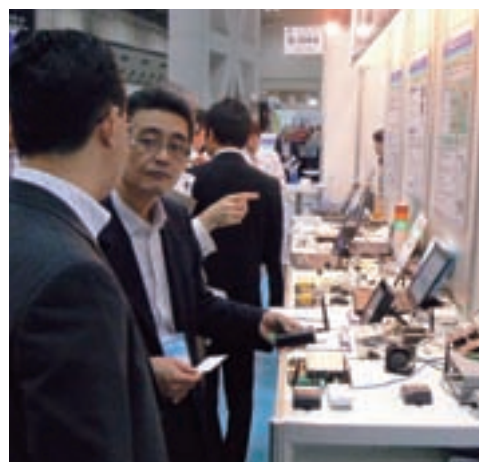
3 Smart Energy Solution Initiatives

Environment and energy are the fields in which Japan should act as a world leader, and the PALTEK Group is aiming to contribute to energy and environment-related industries in Japan through an active commitment to these fields. Based on this policy, we began initiatives in the smart grid market from the second half of 2009.

■ We operated a booth at Smart Grid Exhibition 2010; our booth had over 6,000 visitors. (See right for the photo of exhibition)

■ A joint research project by iD, PALTEK, and the Tohoku University has been selected for the Project to Support Strategic Basic Technology Advancement, organized by the Ministry of Economy, Trade and Industry.

■ PALTEK is a member of the Fukuoka Smart House Consortium. We are in charge of application development for wireless networks in the simulation of smart houses.



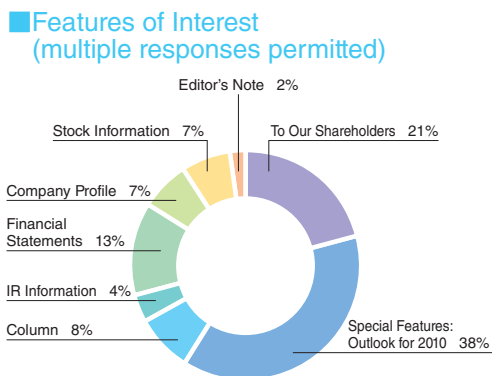
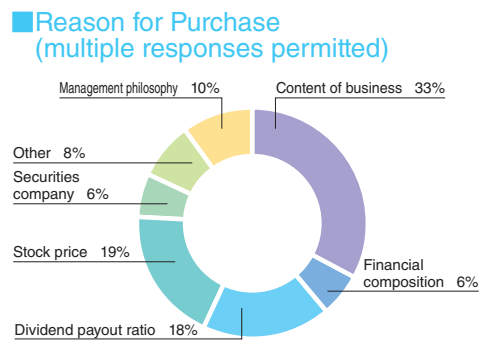
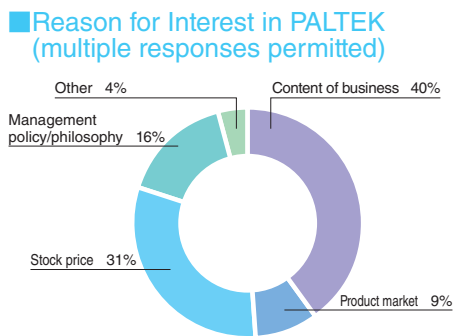
"Smart Grid Exhibition 2010"

Report on shareholder survey

Many shareholders responded to the questionnaire survey for the PALTEK Report for the 28th term. We thank you for your responses.

Totaled results of the last report's questionnaire regarding the reason for interest in PALTEK, reason for purchase, and features of interest are shown below. The survey showed that many of our shareholders have interest in our content of business and our outlook for 2010. We have thus responded in this report by including a special feature on our "new initiatives" for 2010. We will continue to strive to improve our reports, using shareholders' feedback as a reference.

We also received a wide range of comments, including messages of encouragement for our employees, expectations for improved performance, and criticism for the struggling stock prices. We will strive to promptly launch business of smart energy solutions, to which we have started full-scale commitment in the current fiscal year while ensuring solid growth of our existing semiconductor sales businesses, and carry out efforts every day so that these policies contribute to our future growth. We would like to ask for the continued guidance and support of our shareholders in this endeavor.

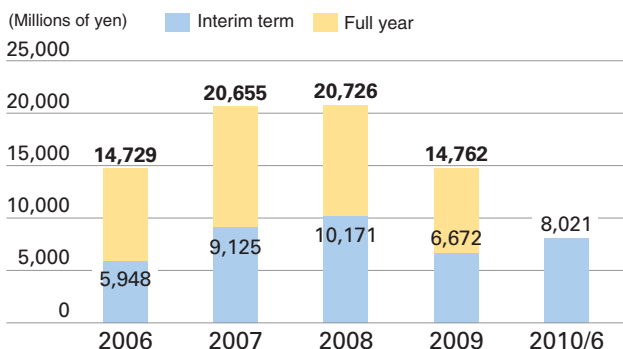


● IR Events ●

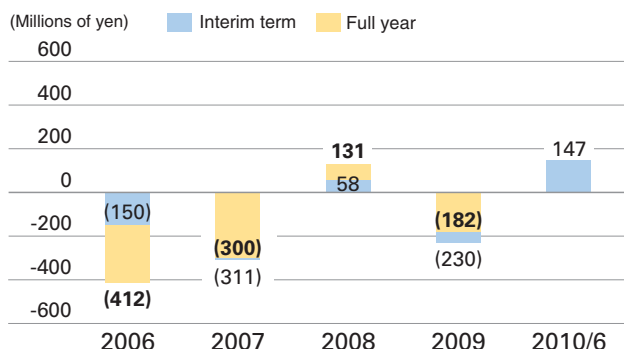
Date	Events
February 10	Explanatory Meeting on Fiscal Year 2009
March 27	Annual General Meeting of Shareholders for the 28th Term
May 12	Explanatory Meeting on Q1 2010
August 10	Explanatory Meeting on Results for First Half 2010
August 28	Operating a booth in IR Forum 2010 Tokyo held by Tuvalu-forest Corporation
Mid November	Explanatory Meeting on Q3 2010

This list includes events that are currently scheduled. Events in rows with colored background have already taken place.

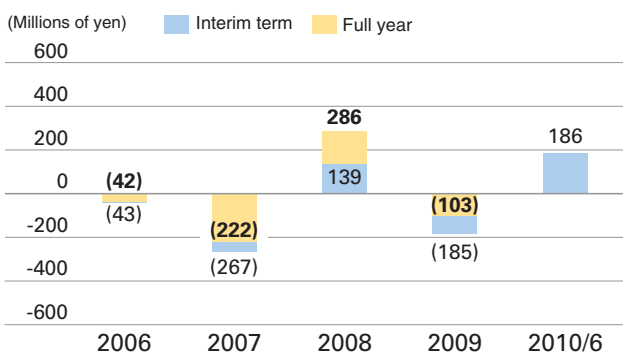
Net sales



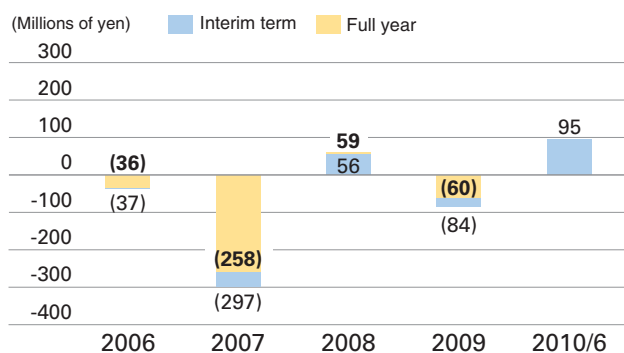
Operating income (loss)



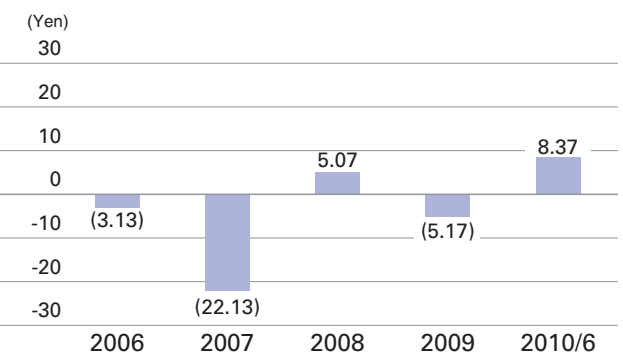
Ordinary income (loss)



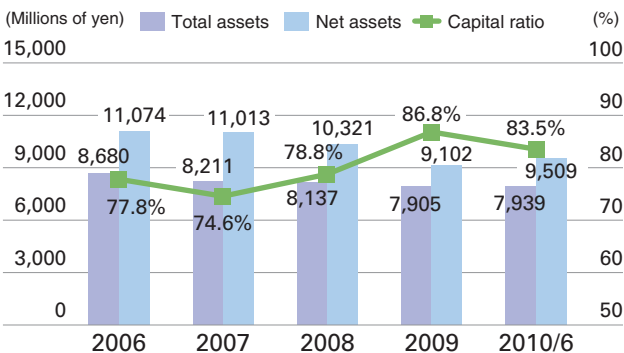
Net income (loss)



Net income (loss) per share



Total assets, Net assets, Capital ratio



Consolidated balance sheet (Summary)

(Thousands of yen)

	June 30, 2010	June 30, 2009	December 31, 2009
Assets			
Current assets	8,922,884	8,483,019	8,412,259
1 Cash and deposits	2,755,403	3,741,674	2,302,915
Notes and accounts receivable-trade	3,462,724	2,721,914	3,544,782
Merchandise	1,483,054	1,693,935	1,590,820
2 Other	1,221,702	325,495	973,741
Noncurrent Assets	586,136	863,696	690,337
Total assets	9,509,021	9,346,716	9,102,597
Liabilities			
Current liabilities	1,336,989	1,174,804	963,962
Notes and accounts payable-trade	727,096	828,029	498,239
Other	609,893	346,775	465,723
Noncurrent liabilities	232,447	227,873	233,112
Total liabilities	1,569,436	1,402,678	1,197,075
Net assets			
Shareholders' equity	7,944,717	7,946,762	7,906,267
Capital stock	1,339,634	1,339,634	1,339,634
Capital surplus	2,698,526	2,698,526	2,698,526
Retained earnings	4,101,901	4,039,338	4,063,427
Treasury stock	(195,345)	(130,736)	(195,320)
Valuation and translation adjustments	(5,132)	(2,724)	(745)
Total net assets	7,939,584	7,944,038	7,905,522
Total liabilities and net assets	9,509,021	9,346,716	9,102,597

POINT 1 Cash and Deposits

Cash and deposits increased as a result of collection of trade receivables, and increased accounts payable.

POINT 2 Other Current Assets

PALTEK had increased accounts receivable-other and consumption taxes receivable.

Consolidated statement of income (Summary) (Thousands of yen)

	Interim term ended June 30, 2010	Interim term ended June 30, 2009	Year ended December 31, 2009
Net sales	8,021,883	6,672,317	14,762,241
Cost of sales	6,615,218	5,583,654	12,378,777
3 Gross profit	1,406,664	1,088,663	2,383,463
4 Selling, general and administrative expenses	1,259,233	1,318,719	2,566,086
Provision of allowance for doubtful accounts	167	—	1,824
Salary and allowances	514,334	538,631	1,060,453
Provision for bonuses	68,861	35,475	41,399
Amortization of goodwill	7,849	7,849	15,699
Other	668,019	736,763	1,446,711
Operating income (loss)	147,431	(230,056)	(182,622)
5 Non-operating income	51,226	95,233	108,409
6 Non-operating expenses	12,570	51,164	28,834
Ordinary income (loss)	186,087	(185,987)	(103,048)
Extraordinary income	12	21,258	19,968
7 Extraordinary loss	997	104,880	129,915
Income (loss) before income taxes and minority interests	185,102	(269,610)	(212,995)
Income taxes	89,480	(185,380)	(152,854)
Net income (loss)	95,621	(84,230)	(60,140)

POINT 3 Gross Profit

Due to increased sales to smaller customers, and the strong yen in currency exchange, gross profit margin improved from 16.3% in the previous consolidated interim term to 17.5%.

POINT 4 Selling, General and Administrative Expenses

Selling, general and administrative expenses declined due to streamlining through the absorption of subsidiaries in April 2009.

POINT 5 Non-operating Income

In the previous consolidated interim term, PALTEK received a reimbursement of 84 million yen for insurance premiums refunded cancellation, and had foreign exchange gains of 43 million yen in the current consolidated interim term.

POINT 6 Non-operating Expenses

In the previous consolidated interim term, PALTEK had foreign exchange losses of 38 million yen.

POINT 7 Extraordinary Loss

In the previous consolidated interim term, PALTEK recorded restructuring loss of 79 million yen and loss on valuation of investment securities million yen.

POINT 8 Cash Flows

(Net Cash Provided by Operating Activities)

PALTEK recorded income before income taxes and minority interests of 185 million yen, and accounts receivable-other also increased. As a result, net cash provided by operating activities amounted to 522 million yen.

(Net Cash Provided by Investing Activities)

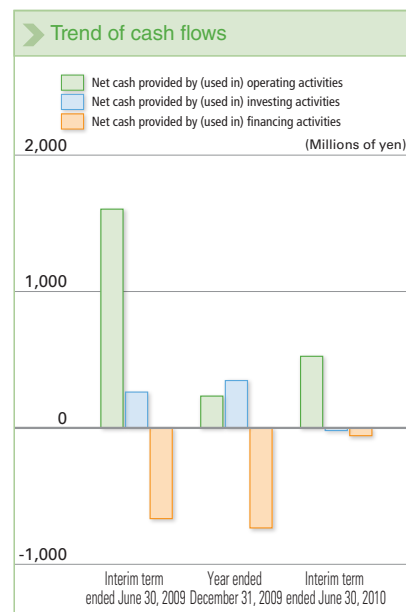
Net cash used in investing activities amounted to 19 million yen, attributable to such factors as purchase of property, plant and equipment.

(Net Cash Provided by Financing Activities)

Net cash used in financing activities amounted to 57 million yen, attributable to such factors as payment of dividends.

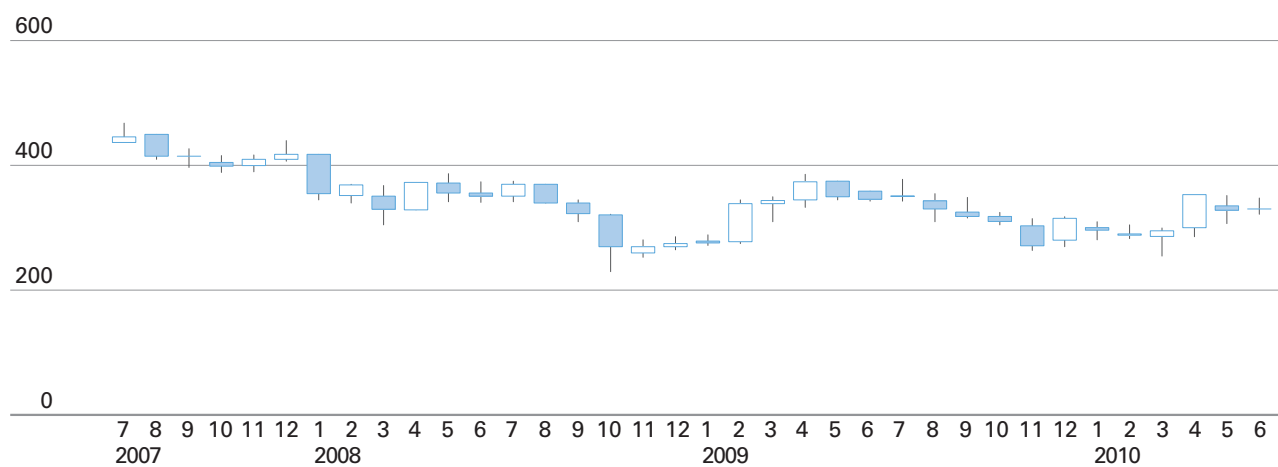
Consolidated statement of cash flows (Summary) (Thousands of yen)

	Interim term ended June 30, 2010	Interim term ended June 30, 2009	Year ended December 31, 2009
8 Net cash provided by (used in) operating activities	522,620	1,604,079	231,946
8 Net cash provided by (used in) investing activities	(19,149)	261,439	347,824
8 Net cash provided by (used in) financing activities	(57,555)	(665,552)	(731,788)
Effect of exchange rate changes on cash and cash equivalents	6,572	(4,994)	(11,768)
Net increase (decrease) in cash and cash equivalents	452,487	1,194,972	(163,786)
Cash and cash equivalents at beginning of period	2,302,915	2,466,702	2,466,702
Cash and cash equivalents at end of period	2,755,403	3,661,674	2,302,915



Stock Chart

(Yen)



Company Profile (as of June 30, 2010)

■ Company Name	PALTEK CORPORATION
■ Established	October 1982
■ President and Representative Director	Tadahito Takahashi
■ Employees	Parent basis: 214 Consolidated basis: 217
■ Capital	1,339,634 thousand yen
■ Subsidiaries	Spinnaker Systems, Inc. PALTEK Hong Kong Limited
■ Main Banks	Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank., Ltd., Mitsubishi UFJ Trust and Banking Corporation, Yokohama Bank, Ltd.
■ Main Customers	NEC Corporation, Sony Corporation, Fujitsu Limited, Toshiba Corporation, Sumitomo Electric Industries, Ltd., KYOCERA Corporation, Olympus Corporation, Anritsu Corporation, etc.
■ Main Suppliers	Xilinx, Inc. (U.S.A.), Micron Technology, Inc. (U.S.A.), Synaptics, Inc. (U.S.A.), AudioCodes Ltd. (Israel), Digi International, Inc. (U.S.A.), Gennum Corporation (Canada), GSI Technology, Inc. (U.S.A.), PLX Technology, Inc. (U.S.A.), etc.

■ Directors and Corporate Auditors

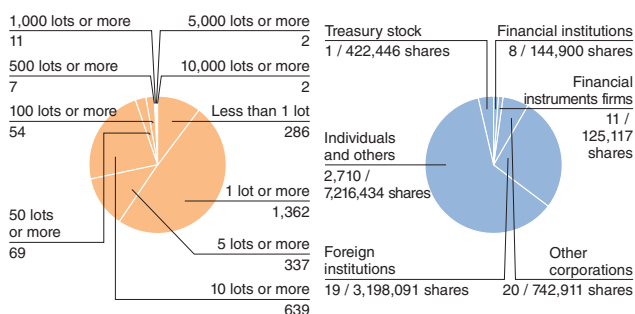
President and Representative Director	Tadahito Takahashi
Director	Naohide Yabuki
Director	Yoshihiro Takeda
Director	Ikuko Tokunaga
Director	Ryouji Shibata
Standing Corporate Auditor	Yukio Miura
Corporate Auditor	Teruhiko Kyogoku
Corporate Auditor	Kazuhiko Nishimura

■ Offices

- **Head Office**
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TEL: +81-6-6384-2281 FAX: +81-6-6338-1681
- **Machida Logistics Center**
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(Logistics Center) TEL: +81-42-788-5560
(Programming Center) TEL: +81-42-788-5561
FAX: +81-42-788-5562
- **Singapore Branch**
10 Anson Road #24-06 International Plaza
Singapore 079903
TEL: +65-6423-0776 FAX: +65-6423-0494

Stock Information (as of June 30, 2010)

■ Total number of authorized shares	23,562,000 shares
■ Total number of shares issued	11,849,899 shares
■ Number of shares per lot	100 shares
■ Number of shareholders	2,769
■ Breakdown of shareholders by volume owned	
■ Breakdown of ownership by shareholders type	



■ Principal shareholders

Name	Number of shares held (thousand)	Equity ownership (%)
Tadahito Takahashi	2,580.4	21.77
Goldman Sachs International	1,813.7	15.30
Dave Brauer	600.0	5.06
Endeavor Corporation	593.2	5.00
Deutsche Bank AG London PB Non-Treaty Clients 613	435.6	3.67
PALTEK Corporation	422.4	3.56
Narie Ogawa	264.7	2.23
Kyoko Mizuno	264.7	2.23
PALTEK Employee Share Ownership Plan	257.4	2.17
Keiko Takahashi	222.8	1.88

Note: The above list shows the actual possession status.

Shareholder Memo

Business year	From January 1 to December 31
Register closing date for dividend receivable	Term end dividend, December 31 Interim dividend, June 30
Annual general meeting of shareholders	March each year
Transfer agent Account management institution for special account	Mitsubishi UFJ Trust and Banking Corporation
Contact	Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation 10-11, Higashisuna 7-chome, Koto-ku, Tokyo 137-8081 Tel. 0120-232-711 (Toll free number)
Listed stock exchange	Osaka Securities Exchange's Jasdaq market
Method of public notice	Electronic public notices: URL-posted public notice: http://www.paltek.co.jp/corporate/index.htm However, should electronic public notices become unavailable in the event of a contingency, the <i>Nihon Keizai Shimbun</i> shall be used for public notices.

Editor's Note

Yoshinori Shibasaki, Corporate Communications Group

In June, PALTEK participated in an exhibition solely for the first time in quite a while. In the past, we have participated in exhibitions to introduce our PLD and telecommunication infrastructure semiconductors to our customers, and the entire company got behind the effort. The result was an extremely energetic event. I also attended the exhibition, and helped guide customers to our booth, although I personally was not quite familiar with our new products in detail. PALTEK booth at the recent Smart Grid Exhibition 2010 was one of the most popular, and generated an extremely energetic atmosphere. We were able to showcase our smart-grid initiatives to a large number of customers, and I am confident that we can exploit this for our future business.

We will continue our efforts to improve the PALTEK Reports and make them easier to understand. Any opinions or thoughts you may have are sincerely welcomed.

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