

BUSINESS

Bucking the trend

Technology •
Microsemi and Dens-
Pac Microsystems have
avoided the chip slump.

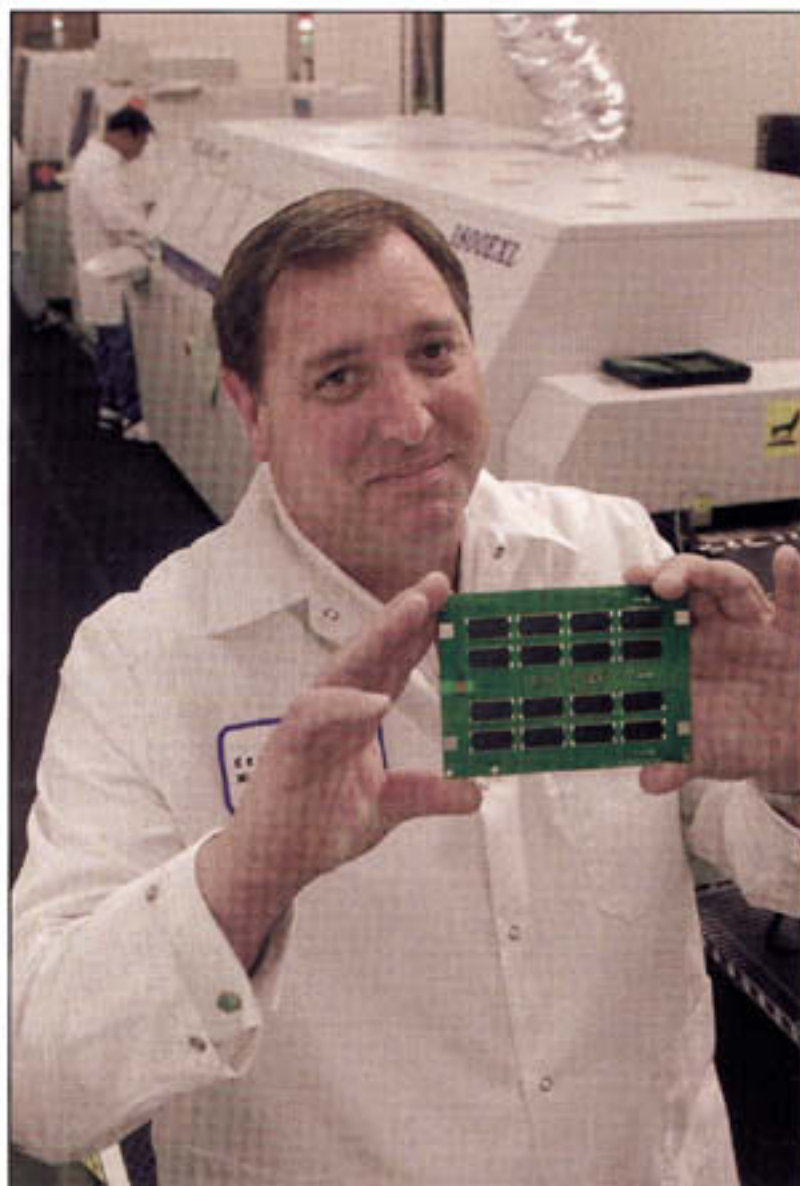
By CHRIS FARNSWORTH
The Orange County Register

They've never gotten the attention of a Broadcom or a Conexant. Their CEOs have never been photographed lifting weights at 3 a.m. or featured in a live report by CNN. And the fluctuations of their stocks have never made national news.

But in the quiet of the tech downturn, while bigger companies are cutting staff and watching investors flee, Microsemi Corp. and Dens-Pac Microsystems Inc. are succeeding despite the odds. And their stocks reflect that.

Shares of Irvine-based Microsemi, which makes a variety of chips and components for wireless and handheld devices, are up 119 percent for the year, to close at \$60.79 per share on Monday. It has signed letters of intent to acquire two more companies and is getting close to a market value of a billion dollars. It finished the second quarter with a profit of \$4.27 million.

While shares of Dens-Pac, of Garden Grove, are down from a year ago, the stock is



DENSE-PAC CEO Ted Bruce holds a board loaded with memory chips at the Garden Grove facility • Photo: Chas Metivier / The Register

on the way up now.

The company, which has developed a system to stack memory and other kinds of computer chips, is up 49 percent so far this year, closing at \$2.97 per share

Friday. Dens-Pac was one of the few chip companies to end the first quarter in the black, with a net profit of \$111,000, and it recently announced plans to increase its work force by 15 percent.

Most chip companies have been hammered by the tech slump, both on the stock market and on their sales charts. Local heavyweights Broadcom Corp. of Irvine and Conexant Systems Inc., both of which will report quarterly earnings this week, have cut staff. Broadcom shares have lost 51 percent of their value this year; Conexant has dropped 48 percent. Nationwide, the Philadelphia Semiconductor Index — which measures the performance of the top chip-related stocks in the world — is down 3 percent for the year, and down 55 percent from a year ago.

An industry trade group said Monday that semiconductor equipment makers will see their industry decline by more than a third this year, and will not surpass last year's sales levels until 2004.

So what makes Microsemi and Dens-Pac different?

Maybe it's "luck," as the license plate on the Porsche of Microsemi President Jim Peterson says.

"There's been a lot of hard work, but luck does play a part," Peterson says.

Microsemi, which employs 1,800, is undergoing something of a rebirth under Peterson, inside and out. He said that the company's sales efforts are being directed at new customers, incentives

and compensation have been shifted to reward corporate growth, and employees have even redecorated their own facilities.

"(Microsemi's old headquarters) would have made you cringe," said Peterson, who became president in November 2000. "If the investment bankers had shown up then, I would have been terrified if one had asked to use the restroom."

So Peterson found a load of old equipment at the various Microsemi offices, auctioned it off over the Net, and used the proceeds for a corporate face lift.

"The employees at Watertown (Mass.) redid the entire lobby themselves," Peterson said proudly. "They laid the tile, painted the walls, built a fountain. They didn't want to let a contractor in there."

The company moved from Santa Ana into a new Irvine headquarters and design center in April. Many of the new offices are still empty, waiting for the engineers Peterson just hired from a facility that Texas Instruments shut down in Orange County. But the lobby gleams with Microsemi's brightly colored logo.

Founded in 1960, Microsemi was a defense contractor for much of its life. But for the past few years, it's been turning its military know-how into products for corporate America.

Its chips now do everything from regulate power in the

screens of wireless phones to keeping pacemakers and other medical devices ticking.

On a schematic diagram of new high-tech equipment, such as a Compaq handheld computer, Microsemi's chips fit in almost every cranny around the central components provided by the major industry players.

"We've got \$1.20 worth of chips in every RIM (Research In Motion brand wireless pagers)," Peterson said. "We've got 40 cents in every Motorola cell phone."

While other chip makers have been stranded by the pullback in spending on communications equipment, Microsemi has been able to expand into these other markets.

"Diversity is the thing that keeps us bucking the trend," Peterson said.

Alex Gauna, an analyst with Banc of America Securities in San Francisco, agrees that diversity of markets is key for Microsemi.

"They have a presence in medical, and aerospace, which a lot of the other players don't," he said. "They haven't been hurt as much because they're not solely fixed on communications, like a lot of other companies were."

Founded in 1982, Dense-Pac also started as a military contractor, then realized it could take the same ideas to the civilian world, said Dense-Pac Chief Executive Ted Bruce.

The math is pretty simple: one 256-megabyte memory chip sells for about \$7 to \$8. But 512 megabytes of memory sells for about \$150.

By using its patented "stacking" process, Dense-Pac can take two 256 megabyte chips and turn them into 512 megabytes for a fraction of the cost.

Dense-Pac, which employs 120 at its Garden Grove headquarters and manufacturing facility, is now using its process on other kinds of chips as well, such as digital signal processors, which are used to deliver video and audio over the Internet.

"The Internet has created a real hunger for capacity, for the ability to run real-time audio and video," Bruce said. "We're now taking different technologies and offering them to our customers."

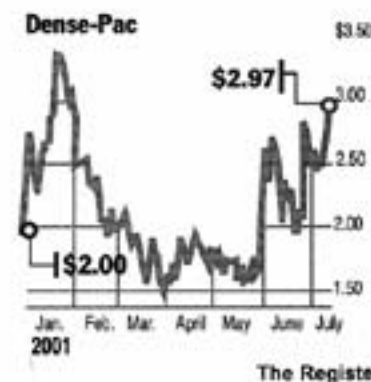
Company management sees each chip-stack that leaves its doors as a customer-service representative.

"Small companies become obsessed with customer service," said Kevin Perry, Dense-Pac's vice president of sales and marketing.

While both companies are doing better than their peers, they're not immune to the downturn. Microsemi's sales are up from last year, but down from \$66.6 million in the third quarter of 2000. Dense-Pac's first-quarter sales were down 32 percent from a year ago.

Onwards and upwards

Dense-Pac is rising despite bad news for most chip stocks.



DENSE-PAC MICROSYSTEMS INC.
Founded: 1982
Headquarters: Garden Grove
Business: Combines memory and other chips with a patented stacking process to increase their capabilities.
Employees: 120
Chief executive: Ted Bruce

If there's any secret to both companies' improved fortunes, it might be that they're not willing to say they're successful yet. Both say there's still a long way to go.

"Everything keeps me up at night," Peterson said. "When you start sleeping tight, that's when someone else comes in and steals your lunch money."

Dense-Pac's Bruce agrees with that sentiment.

"I think a small company (like Dense-Pac) sees a downturn as a tremendous opportunity," he said.

"They get up and work hard every morning, because they know their future depends on it."

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