UNITED STATES DISTRICT COURT

FOR THE EASTERN DISTRICT OF VIRGINIA

ALEXANDRIA DIVISION

UNITED STATES OF AMERICA, Plaintiff, v. MICROSEMI CORPORATION, Defendant.	Civil No:

TRANSCRIPT OF PRESIDENT'S FORUM PODCAST

FEATURING JAMES PETERSON, CEO OF MICROSEMI CORPORATION

DATED MAY 21, 2006

This is a great opportunity for Microsemi to rub shoulders as a, you know, kind of a corporate citizen for Orange County. Microsemi, we are a publicly traded company. About seven years ago our market capital was around $24 million. Seven years later we're- our market capital right now we're touching just about $2 billion in the last seven years. And the company is formulated by predominately a lot of acquisitions. You know, we did a lot of acquisitions, and we did a lot of blocking and tackling in putting companies together. And, the presentation, this presentation I'm going to show you today is pretty much the one that I show Wall Street. And but when I'm with Wall Street, I am

pushing on gross margin, operating margins, efficiencies, you know, trying to convince the institutional investor why they should put money in Microsemi and believe in our, in our story.

Today is going to be a little different, because when I looked at the instructions for this conference–and I understand that, you know, it is predominately private companies and entrepreneurs here–I am going to try to walk you through some of the tough decisions that we made and some of the things that took us from the $20-something million to the $2 billion, and I am here to tell you, $2 billion and growing. Being a public company, I have to show you these disclaimers. [Audience laughter] You know, there are many, many benefits to going public. There are many, many more benefits to not. [Audience laughter] And that's a whole different talk, but I could tell you about it. Essentially, when you get to the short here, is what I'm telling you here that everything I'm going to tell you is really a disclaimer. And if you really want to know what is going on in my life, you need to read the 8Ks, the 10Ks, the 10Qs, and whatever else documents you want and people come up with. It intrigues me.

The first thing about Microsemi that made us very, very successful–or, becoming successful–is we put together a business plan where we were focusing on a lot of diversity. You know, I firmly believe in the old rolling recession, where I don't think the whole world has one large recession, but if you, you know you look at the wave like at a football stadium where they stand and they do the wave, there's always a recession somewhere. All right, so what we are is an extremely diverse company in multiple markets, and it's kind of scattered out enough right now where we

operate in what I call buckets, because once again auditing committees don't let you use the words segments or anything. But we- we- we operate a lot of unique buckets, and I'll walk you through them.

We have two major product lines. One is high reliability products. High reliability products, we focus on aerospace, defense, satellite business, implantable medical (defibrillators, pacemakers), and we do all the IC's that are-that predominately inside that control them. A lot of business in the satellite business. Satellite business is-is right now pretty much on fire. We will probably launch maybe 17 to 24 satellites this year and double that for the next three years going forward. And our content in-in satellites, somewhere between $500,000 and $1,000,000 per satellite, and all very, very high gross margins.

Here I did a lot of manufacturing efficiencies. Essentially, I took 15 different factories, bought 25, took 15, that were last man-standing and consolidated them to four factories-four facilities. So by the end of this year I will have four operating facilities. So I took these, pretty much, well, let's say the oldest houses on the blocks, where utilization is about 20 percent, and I did a lot-a lot of blocking and tackling and assembled the companies.

I have high barriers to entry. Essentially what I bought was old technology nobody else really wanted in this particular market space. This is technology that was built 15, 20, 25 years ago and I call the name "high reliability products." The fact of the matter for anyone that knows technology, these things are discretes. Wall Street gives you no value if you use the wrong

word—if you use the word discrete, you are going to get a multiple on your stock at maybe 1.2 times to 1.5 times. So what I did, around four years ago, I stopped the word discrete. Now what they are is "high reliability products," which they truly are. They go into human body, they go into space, and they get a price of about $2 to maybe $10 per high reliability product.

The fact of the matter is nothing but discretes, nobody else wanted it. We bought all the companies at one time revenue or less, because they were using the word discrete, and no one gave them any value for it, and they were under utilized, so we put them into the Microsemi family.

The barriers to entry are very, very high. Nobody can build Microsemi product because they can't just go to a sub-contractor and say, "I want to build the equipment and manufacture this guy's product," because no one makes this manufacturing equipment anymore. It is all pretty unique, we maintain it, and anybody that had any manufacturing equipment to buy it, I either bought the equipment, I put it in storage, or I flat-out destroyed it. So the barriers to entry are easily three to five years and gaining for us.

It is becoming very profitable, and I will tell you why. I am 70 to 90 percent sole source at all these spaces over here, so what I simply did after I did the blocking and tackling is that I raised the prices. Technology, you can't raise prices. All right, a lot of businesses are very difficult to raise prices. I raise the price in excess of, what I tell Wall Street, between 40 and 70 percent over the last 18 months. And going forward, I told the customers to expect, over the next three years, year after year,

a 10 percent increase in price, and I explained to them why. You know, essentially, this is a market space where they want you to build everything in the United States, and the United States is very expensive. They don't want you to obsolete any product because it's going to be on defense programs. And last but not least, we spent $2 to $3 million taking lead out of all of our ICs, and guess what, military guys want lead. So they are going to pay for it, and the margins tell the tale.

Very predictable, lead times on these things. For someone who has a business, our returns rate's less than 30 percent quarter-over-quarter, which is probably the best in the industry, and my lead time is somewhere between, for this high reliability sector, I get orders 18- to 26-week lead time is not uncommon. So I have plenty of time to get my product out for any given quarter.

The other side, this is where the technology is, this is the high performance analog mixed signal. Essentially, it's analog. Does the industry give you a multiple for analog? No, but they give you a great multiple for high performance analog mixed signal. All right. So, once again, just kind of a branding situation.

Here, we are truly a technology leader in- in- in the gadgets to widgets to consumer products. Our focus is predominately driving lamps and driving CCFL lamps and lights. For instance, inside this notebook here, these are light- lamps under here are CCFL lamps, in-dashboard navigation systems, CCFL lamps, next-generation LCD TVs, all CCFL lamps, and we- we entered that market extremely strong, and I will walk you through

some of the growth factors that we- that we performed in there.

I do a lot of wireless stuff. I do power amplifiers for wireless LAN. There are 14 to 15 manufacturers that make the chipsets; there are only two guys in the world that can make power amplifiers 528 GZ and above, with [indistinguishable]...Microsemi is one of them. That was a nice strategic acquisition of technology that is kind of a black magic, mixed generation RF technology, and we bought that because we knew that it was going to be exclusive, and that it would-it would take a team of people, or- or multiple companies to get together and share technologies, and I bought most of the patents in- in this- in this particular area.

This model is fabulous. We used to- we used to build everything right up here in Garden Grove, in a four-inch facility. I've taken this entire product line and moved it over to China. Oh my, what a- what a surprise. All right, and the reason for that is my manufacturing costs are down substantially than it was seven years ago.

High margins. Wall Street studies margins. Everything I introduce in here is 50 percent gross margins or better, and operating margins are 27 [percent] or better. If- if they don't hit those margin targets, I don't introduce the product. Usually if I introduce a product in this area-and these are high-end ICs-the day I introduce the product, my engineering team has to have the shrink right in place, and that is how fast the price gets detracted in the consumer product space.

High growth area and very, very system-engineered. High reliability products, just to give you a breakout, 40 percent of

my business is in defense, aerospace, and the satellite business; 19 percent of the business implantable medical, and I'll walk you through those market segments a little closer: defibrillators, MRI machines, and pacemakers. High performance analog mixed signal: 19 percent of my business is now in notebooks, LCD TVs. One year ago, that was about 4 percent of our business, so you can see there are a lot of growth areas in the notebooks and LCD TVs.

Automotive is kind of a misnomer. What I do there is redrive the lamps inside in-dashboard navigation systems, I have about 70 to 80 percent market share. So every time you buy- if you buy a new automobile, and it comes with a display in there, it's Microsemi product driving those lamps.

Mobile connectivities, 10 percent, that's predominately the power amplifier that I told you about, wireless LAN, 80211, a,b, and g, and for those that are technocrats, 80211n, pre-n, we have about 90 percent market share there as well.

Industrial and other, that is the catch-all box. When you buy a lot of companies and put it together, you have to have a box to put the stuff that really doesn't meet, you know, the financial standards that you want. What I am doing with that box right now, is I am pretty much separating it, walking away from the business as I- as I grow the other businesses, and/or moving to the Phillippines to manufacture-once again, oh my, what a surprise. Can't build in the United States, can't afford it.

Just another ex- this pretty much shows diversity, you know, everybody's got a customer list of the who's who-it's very nice, they're very similar-in the market space. But what differentiates

Microsemi is we don't have any customer larger than 10 percent—the trick is if you read the Q's and the K's, you'll find out that I don't have any customer larger than 6 percent, okay, and that just is the breadth and the diversity of the company, and it is not uncommon in any given quarter that I will have one of the top seven customers in each of the six boxes. So it is very, very diverse, so if one market kind of slides off, it is ok, the other markets will balance Microsemi.

This is [indistinguishable] it started back in 2001, we put a plan together and we said okay, we had 15 sites, utilization was probably about 20 percent, what doesn't show on this chart is there were 2,600 Microsemi employees worldwide, it was probably the most inefficient operation, that's about when I joined the company, about 6 months before here. Income per employee was about $3,000, gross margin was 28, and the operating margin was 6.3, and Wall Street gave you no marketing cap, no nothing. So we put together an aggressive plan, we gave it a nice name, "Factory Utilization Enhancement Program," and we all liked that, Wall Street likes things that are being enhanced.

Essentially, last quarter that I report I took it from 15 sites down to six, my sales per employee were up to about $221,000, income from employee about $37,000, gross margins up to 50 percent, which was my original target if you go to the right, and my operating margins 27.3 percent. So we hit our financial targets, right, so Wall Street says, "What's next?"

So we had to come up with things. I bought, yet, another company. I bought a company called Advanced Power Technology. They were up in Bend, Oregon. I gave them 1.6 times revenue going

forward, which was about $140 million I gave them. They were a public company, I am going to strip out all of their public costs, right, very difficult for a company under $100 million to go public these days. You know, the cost of the auditors is phenomenally high. I am trying to lower my rate as-as I speak here. But it's a fact small- you know, under a $100 million going public today, well, with all the embedded costs is very difficult, so I am taking them to where they- they- they can't go. And I get a probably a six times multiple from my market, so if I buy them, I get 1.6 for them, six times multiple I will pay $140, and Wall Street will give me a valuation of it of $700 or $800 million, and that will hit in the next four or five weeks.

High reliability products, discretes, you have to have a business plan. [Indistinguishable] My business plan is this, by the way. This is the same business plan I show my board of directors, it's the same one I go through my employees, it's the same one I show Wall Street. There is no big secret on what Microsemi is doing, and it shouldn't be. I think the person at the front desk should know as much about the company as the Board of Directors. Okay, so this is a pretty good template that we use here at Microsemi.

The value of proposition is real plain and simple, you put four or five, you know what they are. One is sole-source positioning. Almost all of my markets, I either have 70 percent or greater market share, or I am entering with the intention of having 70 percent market share going forward. You know, and if- if you don't get the 70, that's all right, you get the 10, the 20, the 30, step-by-step, but just keep bringing the business in.

A lot of lean manufacturing initiatives. Manufacturing is the key—you burn a lot of money if you don't manufacture right. You know, not to mention [indistinguishable]. A lot of growth in military spending. You know, you might have noticed there's a conflict going on. And- and more to come. Military spending is robust, and it is going to get stronger over the next five years. Anybody that thinks the budget is going to go down in defense is absolutely incorrect, okay, and my backlog proves that. A lot of growing electronic content. That is the beauty of life, everybody likes more electronics. And then in Medicare, we started putting product in the implantable defibrillators, and just when you think life can't get any better, what happens? Medicare decides they are going to cover implantable operations for defibrillators. And once Medicare gets in, I'm telling you, it gets abused, and the volumes go up in any given product. You know, someone goes in, fifty years old right, right, feeling a little tired, right, their foot hurts; they are walking out with a defibrillator. Guaranteed. [Audience laughter]

Bragging about defibrillators for us. You know, what we do is we do the charging, the switching, the protection of these devices, and as these devices expand in functionality, so does Microsemi content. So you get a pretty good market here, you- you know, this is a great one if you are in the medical market space: there's three customers, right, there is a guy named St. Jude in Metronics, they own 95 percent of the business, not hard to figure out what the business is going to do, you got to talk to your three guys in this particular market. Now remember, it's about 19 percent of my business. The organic growth rate of this

particular market–you've got to know the growth rates of your markets, right? If you don't know the growth rates of your markets, go find out. The organic growth rate of this market is 15 to 20 percent over the next twelve months, and probably will consistently grow somewhere between 18 and 22 over the next three to five years. In addition to that, my dollar content keeps increasing. We started with $22, so I get the organic growth rate of 15 to 20 percent, and then I got a dollar content by the end of 2006 of greater than $100. So you do the math. This particular section, which is a very high margin, high profitable section, will grow over 40-45 percent per year, over the next three years. And just, raking the money. And it is predominately sole-source.

Military programs? Like I mentioned, we did a lot of acquisitions. We bought every last man standing guy in the discrete business, except for two small little private companies, all right, and how I manage them is yet another story. You know, essentially it is their product I give away for free; my sole-source product, I charge for. Kind of drives them out of– out of the market, and that is all legal, by the way. It's fair competition, or so they say. Defense program– there is probably not a defense program that Microsemi is not on. And we are all over the place, we have our communications, cockpit landing gear, there's just, it's all predominately 90 percent or so sole-source Microsemi content, and that is why I raised the prices. All right, I raised the prices because, simply, we could.

High performance analog mixed signal? This is the juice, this is the one that gets all the money. All the R&D money, I spend about $20 to 30 million a year on R&D, 95 percent of it

goes into this particular section here because this is the real growth of the company [indistinguishable]. For the other one, we will rake in a tremendous amount of cash, it is not a cash cow but it rakes in a lot of cash. But, guys in technology like myself, we've got to spend, and we got to put money in technology. So what we did is we put together a company, we started with a little four-inch facility, acquired a little company called Infinity Up the Road, convinced the [indistinguishable] that owned that to sell it to Microsemi, and myself and my management team, when the owners of Microsemi, because Microsemi has been around, what, since 1960 for you guys here in Orange County. You saw that old dirty building years ago, that I have since closed down. The guys that ran Microsemi, they were busy measuring my property at Garden Grove and my mixed signal company, and as they were measuring the property, I had my eye on the stock ticker. So lo and behold, one year later it was kind of like "who bought who," and we sold it to them for $20 million dollars, [indistinguishable] and got their stock ticker, and then, you know, started modifying things.

This particular hyper dialog signal, really system-engineered driven, you really got to sit down and understand the-the building blocks, the architecture and the fundamentals of your customer's product, and you got to know that product better than they know it. Lot of new products, and I have a lot of intellectual property, I have a lot of patents, and most of the patents, I bought.

Let me just tell you about integration of products that are very, very important. When we started Microsemi, we had a family

of products–in the top left-hand–and we started building CCFL controllers, lighting controllers, for in-dashboard navigation systems, and our claim to fame was that our patents would allow the lights to strike in all-weather testing, and you don't sell to an automotive market space unless you can meet the all-weather testing and the roll-over, ignite crash testing and the like, and we had a nice little business. All right, the problem was that it's, you know, there's only so many in-dashboard navigation systems, and its about 6 percent of the total business of the company now, years ago it was around 30, and it declines in ASP. So what we did is we said okay, we are [indistinguishable] to use the same lamps, and then were very happy to find out that, guess what, in every notebook computer there are the same exact lamps, all right, they are a little bit longer, you have to strike them a little bit different, and then oh guess what, there is a product coming down the road called LCD TVs–to the top right, and there is a heaven, right, when LCD TVs hit the market because, guess what, they are all CCFL lamps. And the beauty of it is that there are not two lamps, like in an automotive navigation system, and there's not two to four like in a notebook, there's 20 to 40 to 80 lamps and gaining. All right, so what we did is we entered that notebook market space and LCD TV market space 18 months ago. Eighteen months ago we went to Wall Street, and went to our customers and said, "We are entering the notebook market space and we are taking on the entrenched leader," (the guy's name was O2–and I say was because he's losing a lot of market share), and LCD TVs were just starting so there was no real entrenched customer– competitor, but we– we entered the market. We closed

the first year of shipping product, we now, I think we ship to-you know, CCFL controls is about 10 percent of notebooks-so one out of every ten notebooks now has Microsemi's CCFL controller in it and gaining, and the intent here is to get 30 to 40 percent of the market share in the next five years, and if you have 30 to 40 percent of notebooks, the volumes are very high and there is a lot of money to be made.

In addition to it, we are introducing a family of product to go along with it, ambient light sensors. We invented a light sensor technology, or we found a little company that had it and bought them, I forget how it went, but here or there, we come up with a technology that extends the battery life in a notebook over one hour, and we- we- we convinced HP, and everyone of the HP platform is now are using our ambient light sensor, we call it-or visible light sensor is the technical term for it-and lo and behold, others are following as we speak. The next generation of product will extend the battery life up to two hours. A Blackberry like you got, Steele, we could extend the battery life up to 22 hours with a next generation ambient light sensor. And- and most cell phones. I just got to find the right packaging so I can package it and sell-you know, you know a little smaller form [indistinguishable], but we will, someone out there has that technology, or we will develop it.

LCD TVs, this is- this is if you like to play in markets, this is one of the best markets. Two years ago, we shipped eight million LCD TVs in the market space, and they were pretty horrible, okay, they were very, very discrete-oriented. I used the D-word there. Old technology just trying to fill an

application. Last year, we shipped as an industry 20 million LCD TVs. So what is happening now is, you know, that we hit the price target where the consumer will buy it. All right, next year, or this year we're in right now, they are expecting to ship somewhere between 45 and 48 million LCD TVs. So I got a great market that is doubling, and doubling again, and I am here to tell you that it will probably be 100 million the following year out.

What we are doing at Microsemi is, okay guys, [indistinguishable] CCLF controller, and that controller sells for on or about $1.32, okay, and 27 inches and above, I have got 30 percent market share and gaining. Which is all the new, next generation monolithic solutions. So the play here for Microsemi to, you know, to continue our strength and growing, is simply dollars per widgets. You are inside this one unit, all right, and what else can you sell to them? And we've got in our- in our little handbag [indistinguishable] probably about $8 worth of content for every LCD TV, so today the math is pretty simple, I am shipping a $1.32 to 30 percent of the LCD TVs. All right, now what I'm trying to do, or going to do, is get the dollar content up. Next year at this time, if I were here to speak next time, I will probably have $3.00 worth of content in every LCD TV, and you do the math, and gain market share. And in three years out we will easily have $8 to $10 worth of technology.

And this- the ICs that we have, we already have in our bag. We have a great family of, I don't know if anybody is [indistinguishable] here, Class D audio, all it is is an advanced PWM, but it needs no heat-sync, and every LCD TV is going to put

audio in it obviously, and we've got that technology, so we can design wins as we speak. And then there is a multitude of other streaming video, media that you do on your website, well LCD TV is going to have that built into it, there is going to be a standard wireless LAN called 80211n, and we have got about $4 or $5 worth of content in every 80211n out there; as a matter of fact, we are pretty much the sole-source guy at 5/8 and above. This is the wi-fi segment area- power amplifiers, we have 77 [percent] market share and gaining. Once again, we just bought a company that had some technology, and we built the product roadmap for them.

Let me just walk you through some of the numbers now. Let me do the pictures, it's easier to speak off it. This is pretty much the last eight or ten quarters. We have, you know, we have continued over the last 13 quarters, we've grown the company somewhere between 3 to 5 percent in revenue per quarter. The gross margins went up the last 8-9 quarters, from 31 percent to 50 [percent] and gaining. The real play here is operating margins, this is- this is the whole story is right here, is how much money you make? All right, no one really cares about your products, they don't really care about your story, at the end of the day they are going to measure you up real plain and simple: how much money are you making, how much free cash flow is coming into your corporation. And what we've done is the operating margin at a target of 27, we just blew through that, I'll modify that after my next acquisition, and we will announce to the world, or Wall Street, what the number or the target will be. But we have been growing the gross margins nicely, but the operating

margins we've been going from 1.6 to 1.8x, which means you start throwing down a lot of cash. And what we do with the cash is, back in 2002, we were about $23 million in cash, and we had $5 million in debt. You go back one year before that, I had $24 million in cash, and $19 million in debt, pretty much on the edge of being out of business. It was gone. Okay, so what we've done over the last, you know, 4 or 5 years is cash positions up to about $113 million, which is not a lot of cash in our environment, but it's a secure position with cash, and we have zero debt. That's called pretty much just paying your bills.

And that's pretty much the story of Microsemi. It's just that, well, you know, go into a market, know your competitors better than they know themselves, acquire the ones that you want, and make sure you're running very, very efficiently. That's pretty much the key to success. And you can take it from $20 million, to $2 billion, and I'm sure, play it right, you can double it again, and double it again, and double it again. There is a lot of opportunity out there, and that's what we do. Okay. Any- any [indistinguishable] questions?