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Micron earnings up, employees to get bonuses

But it will be fall before new plant location is picked

Micron Technology Inc. will hand out almost \$12 million in bonus checks to employees worldwide following its fourth consecutive profitable quarter.

The Boise-based semiconductor giant Tuesday reported it out-performed analysts' expectations thanks to a 23 percent jump in shipments of its memory products during the quarter that ended March 3.

As a result, Micron earned \$118 million, or 17 cents a share, on sales of \$1.3 billion for the quarter, compared with a net loss of \$28 million, or 4 cents a share, on revenues of \$991 million for the same quarter a year ago.

Analysts had predicted the company would earn 14 cents a share on sales of \$1.27 billion.

The bonuses were good news for Micron's 11,000 Treasure Valley employees, who could get profit-sharing checks averaging more than \$600. But company officials remained silent on whether the Boise plant would be chosen for a \$1 billion upgrade to produce the next generation of silicon wafers.

Steve Appleton, Micron's chairman, president and chief executive officer, said that in the wake of the Idaho Legislature passing a company-sponsored incentive bill, Boise is getting a "good look" as a possible site for a new plant to produce larger, 300-millimeter wafers.

The bill, which was suggested by Micron officials, grants Micron a cap on Ada County property tax valuations and sales tax relief for research and development equipment. "I'm not ready to make any announcements," he said. "But we're going to have to make a decision (on the new plant), hopefully by the fall.

"The way to insure the future is to go to 300 millimeter. If you don't take a facility to 300 millimeter, you can't survive." Appleton said the better-than expected second-quarter earnings were attributable to an expansion of Micron's portfolio of memory products beyond its traditional dynamic random access memory (DRAM) business.

"Expanding our products portfolio helped hold up our (financial) performance at a time when the average selling price for DRAM products was down 15 percent," Appleton said.

Analysts agreed that expanding its lineup of products to include flash memory for digital cameras, camcorders and video games, and image sensors for camera phones and personal digital assistants showed up in Micron's second-quarter numbers. "DRAM is dependent on the computer industry," said Sherry Garber, senior vice president with Semico Research Corp. in Phoenix. "And (chip) prices have been soft since December. This (quarterly report) speaks well for Micron's expansion into these other markets."

The bonus checks will help the Treasure Valley economy, but it's hard to say how much. Idaho chief economist Mike Ferguson predicted some of that bonus money will find its way into the retail sector of the local economy.

"Some people will save it, but some will spend it. And if they do, it's unlikely it will be for rent or groceries," Ferguson said. However, Ferguson said that in an age of low-cost Internet retailers, it's impossible to predict how much will be spent locally. "It's just as easy to take that money and

spend it at Amazon.com, as it is at Barnes & Noble," he said. "But the law of averages says that when people receive an unexpected economic windfall, they're going to spend some of it on a nice meal at a restaurant, or on a new outfit to wear to the gym."

Company officials said the 23 percent spike in the number of chips shipped indicate Micron has begun to recapture lost market share, despite soft market conditions. "If you do the math, it equates to market share gains," said Bill Stover, Micron vice president of finance and chief financial officer.

Bill Dezellem, an analyst with D.A Davidson, said a \$53 million increase in inventory means Micron will have plenty of product to sell during the current quarter.

"If the price holds up, they could have a fabulous quarter," Dezellem said. Doug Freeman, an analyst with American Technology Research, expects Micron will continue to push for cost savings associated with its plans to employ new 300-millimeter wafer technology.

Micron is tooling its production facilities to take advantage of the 12-inch, or 300-mm, silicon wafer, which will allow it to produce almost 2 1/2 times more memory chips at lower costs than the current 8-inch, or 200-mm, wafer. It is currently manufacturing 2,500 of the 300-mm wafers a week in Manassas, Va., where most of its \$361-million capital expenditure budget was spent in the second quarter. The Manassas facility is expected to be churning out 5,000 12-inch wafers by next summer.

"Right now, the cost of 200 millimeter and 300 millimeter is competitive," Freeman said. "But they know that 300 millimeter will ultimately get them a lower cost wafer."

Appleton said that 200 millimeter is "more cost effective" than the 300-mm technology. Long-term, however, he said the latter process will be the least expensive of the two, raising the question of where Micron will build a new 300-mm wafer manufacturing facility.