

SEC OKs Micron deal

GRACE LEONG - Daily Herald
Friday, May 05, 2006

The U.S. Securities and Exchange Commission gave its blessing to Micron Technology Inc.'s proposed acquisition of Lexar Media Inc., clearing the way for Lexar shareholders to vote on the deal June 2.

Boise, Idaho-based memory chip maker Micron, which is now hiring up to 1,850 workers at its Lehi plant to make NAND memory products starting in early 2007, and flash memory card maker Lexar, in a joint statement issued Tuesday, said the SEC approved an agreement that allows Micron to buy Lexar in a stock-for-stock merger. Fremont, Calif.-based Lexar will continue to operate under its name because of its strong brand identity, and no significant changes are expected for its 320-employee work force.

Under the deal, Lexar shareholders will receive 0.5625 shares of Micron common stock for each share of Lexar common stock. The value of the merger, which is calculated based on Micron's closing share price on the day the deal closes, is estimated at about \$778 million. That value is based on Thursday's closing price of \$16.96 per Micron share.

According to Jim Handy, a Silicon Valley analyst with Phoenix, Ariz.-based Semico Research Corp., the deal will allow Micron to diversify and compete with one of its rivals, memory maker SanDisk Corp., for a bigger share of the NAND memory chip and flash card markets.

Handy says the potential for flash card products is tremendous -- its market reached \$8 billion in 2005 and is expected to jump to \$11.1 billion this year. Likewise, the market value for NAND products reached \$11 billion in 2005, and is expected to jump to \$14.8 billion this year. NAND chips are used in portable music players such as Apple iPods, digital cameras and portable storage and handheld devices, while flash memory cards are used in USB flash drives, card readers in digital photography, consumer electronics, and industrial and communications markets.

"Just as Micron's joint venture with Intel will give Micron some of SanDisk's strengths on chip manufacturing, the Lexar acquisition will give Micron a presence in the flash card market, especially since Lexar, through an exclusive deal, also sells the cards under the Kodak brand," Handy said.

"About 95 percent of Micron's business is in the manufacture of DRAM memory chips for computers and flash memory, the rest is in image sensors and NAND flash memory products," he said.

To tap what Micron spokesman Daniel Francisco described as one of the fastest growing markets in the semiconductor industry, the company entered into a joint venture with Intel Corp. in November to make and supply NAND memory chips at Micron plants in Lehi, Boise, Idaho and Manassas, Va. A significant portion of these chips will be shipped to Apple Computer. Apple is expected to pay Micron and Intel \$250 million each.

By the end of 2008, the Lehi plant will be the largest maker of NAND flash chips, outstripping the Boise, Idaho and Virginia plants, Handy said.

"This is an opportunity for two companies that share complementary strengths to be more successful in the NAND flash memory market. Micron brings manufacturing and technology leadership in the NAND space, and Lexar brings its own NAND flash expertise, brand recognition and retail channel strength," Francisco said.

Although supporters of the Micron-Lexar deal remain optimistic about getting Lexar's shareholder approval, at least one shareholder, New York billionaire Carl Icahn, remains skeptical.

Icahn, who reportedly owns about 6 percent of Lexar, has, in filings with the SEC, opposed the deal because Micron's offer was "insufficient." In the SEC filing, Icahn's group suggested that while Lexar's business operations should be sold, the potential proceeds from various lawsuits, including multi-million dollar damages from Toshiba as part of a settlement of intellectual property claims, should be distributed to shareholders.

Francisco declined comment on the impact of Icahn's opposition to the merger. This story appeared in The Daily Herald on page D6.