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COMPANY INTERVIEW

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Atmel Corporation (ATML)



STEVEN LAUB has served as the President and CEO of Atmel since August 2006. Prior to joining Atmel, Mr. Laub was a technology partner at Golden Gate Capital Corporation, a private equity buyout firm, and the Executive Chairman of Teridian Semiconductor Corporation, a mixed-signal semiconductor company. From 2004 to 2005, Mr. Laub was President and Chief Executive Officer of Silicon Image, Inc., a provider of semiconductor solutions. Prior to that time, he spent 13 years in executive positions, including President, Chief Operating Officer and member of the board of directors, at Lattice Semiconductor Corporation, a supplier of programmable logic devices and related software. Before joining Lattice Semiconductor, Mr. Laub was a Partner

at Bain and Company, a global management consulting firm. Mr. Laub holds a B.A. degree in economics from the University of California, Los Angeles, and a J.D. from Harvard Law School.

SECTOR — SEMICONDUCTORS

(ALD605) TWST: Please begin with a brief historical sketch of Atmel Corporation and a summary of what's going on now.

Mr. Laub: Historically, Atmel® was focused primarily on memory products, particularly flash memory. Its growth from the mid-1980s through the late 1990s was primarily from memory products. The company began a very substantial business and product diversification as it pursued new growth drivers. I joined the company as President and CEO in August of 2006, and we dramatically changed our strategy at that time to focus on a few core product lines. Specifically, we began to focus on microcontroller and microcontroller-related technologies as the core business for the company. This led us to exit approximately 15 different businesses and product lines between early 2007 and the current time frame. We have also moved away from commodity markets and are now focused on more proprietary product markets to raise the growth rate and profitability of the company. A major impact of that is now being demonstrated in our financial results, as illustrated in the Q2 2010 financials that were just published on Aug. 4, 2010. The company focus on microcontrollers has been paying off as the business has grown tremendously during the past few years. It has grown from just 24% of our business four years ago to half of our business today. We expect it to be the highest-growth sector in our business, with the highest profitability. Within microcontrollers, we are also focused on capacitive touch, or touch-sensing technologies. These include the technologies you're seeing today in products such as smartphones. It was first popularized by Apple with their iPod and iPhone products and more recently with the introduction of the iPad. Many of the touch capabilities act as a human interface between people and devices, which is an area of focus and high growth for us as well.

TWST: Where was the company 12 to 18 months ago? What were your goals and expectations at that point? How have you performed within that time frame?

Mr. Laub: Our goals were threefold 12 to 18 months ago. First, it was to drive the growth of our microcontroller business. The second was to make sure we successfully executed on scaling the

touch business, which we had recently entered through the acquisition of a company called Quantum Research Group that we acquired over two years ago. Third, it was to continue the sale of several major assets as we strategically transformed the company. These include the sale of a large wafer fabrication facility and of our smart card business, which are both located in France. Over the last 18 months, we're pleased that we've made terrific progress on all three areas. The microcontroller business last quarter grew 31% sequentially to \$198 million of revenues and was up 94% year-over-year — a tremendous growth for that business. Our touch-sensing business, specifically a product line that we call Atmel maXTouch™, which we introduced in May of 2009, began to ramp earlier this year. Our first quarter of actual production revenues was the first quarter of 2010, and maXTouch is on track to exceed \$100 million in revenues in 2010. We are very pleased with the success of that product line. We are just now shipping in volume to such customers as Samsung for their Galaxy S product line, to Motorola for the DROID X product line and also to HTC for both their Incredible and EVO smartphones. We have been very successful in some very high-end Android smartphones, and there are numerous new designs on track to be released later this year. Finally, with the strategic changes of the business, we just completed the sale in June of our wafer fab in France. With the completion of this sale, we've successfully implemented a fab-lite manufacturing model as we have reduced the wafer fabs of this company over the last three and a half years from five to one. Also we have entered into an agreement to sell our smart card business and expect to transfer that business to the new buyer, Inside Contactless, by the end of this quarter.

We are very pleased with the financial impact of these actions. The growth of the company last quarter to \$393 million in revenue was up 13% sequentially and up 38% year-over-year. Our gross margin hit the highest since the fourth quarter of 2000, as we achieved a 40.6% in gross margin and have guided gross margins this quarter to rise to between 43% and 45%.

TWST: What does the customer space look like today for Atmel? How do you see it changing and evolving?

Mr. Laub: Our customers span a wide range of different applications and end markets. Our industrial customers make up our largest end markets, followed by consumer and then by many varied markets, including medical, smart energy, smartphones or cell phones, automotive and so forth. We sell to the largest electronics system companies worldwide. What we are seeing is more growth over the last 18 to 24 months in the consumer markets, with more growth in the handset or smartphone segments. Moving forward, we will continue to see growth in those markets. We believe industrial will remain our largest market for the next few years, but we expect that consumer and smartphones will continue to rise tremendously for us. This is primarily because of the adoption of the microcontroller and touch technologies as they continue to penetrate deeper in their existing markets and proliferate into new markets.

"We want to continue growing faster than the rest of the market, which we have been doing the past several years, and to maintain that growth going forward. We also want to take the leading position in the capacitive touch marketplace, which we think will provide some very significant growth opportunities for us in the next several years."

TWST: What is your agenda for the next 12 to 24 months? What would make that time frame a success?

Mr. Laub: My agenda for the next 12 to 24 months is first and foremost to continue to drive market share gains and outperform in our microcontroller business. We want to continue growing faster than the rest of the market, which we have been doing the past several years, and to maintain that growth going forward. We also want to take the leading position in the capacitive touch marketplace, which we think will provide some very significant growth opportunities for us in the next several years. We see that market expanding beyond smartphones to include tablets or tablet PCs; they should also move into GPS devices, printers, automotive solutions, point of sale terminals and other handheld devices. We believe it's going to go across a myriad of many different application areas, and we want to make sure we drive success into those areas. We also need to increase the margins and profitability of the company, and we have programs in place to do that. Also because of the tight supply environment in the industry, we need to ensure that we ramp capacity with our wafer foundry partners in Asia, which we are currently doing and continue to make that successful.

TWST: What do you consider to be your competitive landscape? How do competitors and their dynamics impact your strategies?

Mr. Laub: We face many large and formidable competitors in the standard microcontroller space. We face such competitors as Freescale, Texas Instruments, ST Microsystems and Microchip Corporation to name a few. They are all very impressive and very well-run companies. We have a new set of competitors that we didn't compete with before in the touch space, including Synaptics, Cypress Semiconductor and many others. We participate in a very competitive

marketplace. The microcontroller market is a large market, but it can also be a very diverse and fragmented market, which provides lots of opportunities across different applications. But we're very pleased with the penetration success we're having, and we are hopeful that we'll continue to have such success going forward.

TWST: Introduce us to two or three of the key individuals in your top-level management team, both on the business and technology sides.

Mr. Laub: On the business side of my management team, the key individual would be my Executive Vice President and Chief Operating Officer, Walt Lifsey. Walt is responsible for a lot of the changes that we've made to the operations, particularly moving to a fab-lite business model. As I mentioned, we had five fabs about three and a half years ago, but we're down to one today with the selling of those fabs. We are deploying and driving the sourcing of our wafers to Asian foundries. To make this successful has been a major task under Walt's direction. On the technology side, it would be T.C. Wu, a Co-Founder and Executive Vice President of the company. T.C. was one of the early inventors of flash technology in the industry responsible for the embedded flash technologies and embedded memory technologies which have helped drive our success in microcontrollers. He is very key to our ongoing process engineering innovation and continues to be a major contributor to Atmel's success.

TWST: What historically has been the shareholder base of the company? Has that base undergone any changes? How has it evolved?

Mr. Laub: The shareholder base has been predominantly large financial institutions, particularly participants in the mutual fund industry. Janus Capital Corporation is our largest shareholder. Other major shareholders include RS Investment Management, Blackrock Global Investors, Columbia Management, Vanguard Group and Iridian Asset Management. While there is constant change within the shareholder base, our top shareholders have been pretty stable since 2007. Many of our shareholders started buying at that time and have been large holders since the 2007-2008 time frame. These investors appreciate the potential and opportunity of Atmel and have invested in us for the longer term. I think if you speak with these investors, you'll find that they're quite pleased with the returns they've achieved on their investments with us.

TWST: In your discussions with the investment community, do you encounter any recurring questions or misperceptions? Do investors understand the Atmel story?

Mr. Laub: I think our large shareholders primarily understand the Atmel story, which is why they invested in us and continue to maintain large holdings despite the very significant return that they've had over the last couple of years. As a company that has gone through a lot of change, I believe there are many others that have not bought into Atmel yet. Atmel has been around a very long time and was known as a very diverse company but primarily as a memory-driven commodity products company. I believe many investors on Wall Street haven't appreciated how this company has truly transformed into a more microcontroller-focused, proprietary products company. We are also a company with higher growth and higher margins than we had in the past. For a lot of people who don't own us or just haven't heard about us or done the research, I think they'll be pleased to find there has been very substantial

changes in the company. This is both from a business and operating model standpoint that would allow them to see there's a lot of opportunity here for them as an investor.

TWST: What should investors understand about what you're tied to? What is important to know as far as the industry's underlying fundamentals or historical trends?

Mr. Laub: Obviously, the end markets are going to grow at only a certain speed. However, they should understand the extent that electronics are becoming an increasing proportion of those end markets and the changes that are occurring in that. If GDP is growing at a certain percent, electronics should grow faster than that because it's becoming an increasing part of the total economy. Semiconductors are both a demand- and supply-driven marketplace. In other words, you clearly have to have demand for your products, but when supply is tight, the market will grow much faster because you won't have the normal price reductions occurring that are typical in this industry. One thing I think investors don't appreciate, with respect to Atmel, is that we are positioned today in the very high-growth segments of the marketplace. For instance, the microcontroller, capacitive touch and wireless markets are higher growth than the general semiconductor market, which allows us to outperform the industry.

TWST: What are the ABCs of business according to Steve Laub?

Mr. Laub: The most important part of being successful in business is to have a strategy that allows you to appreciate where the market is moving toward, so that you're always positioned to grow in that marketplace. You need a team that is ready, willing and able to make change and to execute very hard on that strategy. I am also very mindful of the advice of Andy Grove, the former CEO of Intel Corporation. One of his books was named *Only the Paranoid Survive*. In this industry, you should have a mindset that you could always be overtaken by your competitors or obsoleted by a new technology. You have to constantly be on the lookout for what's changing, what's adapting, and be prepared to make those changes. Never rest on your laurels.

TWST: What are the key metrics or advances that investors should focus on as they track your performance?

Mr. Laub: A key metric for us is to track the adoption of our microcontroller products. In addition, tracking the adoption of touch technology throughout the electronics industry, whether it be smartphones, tablets or other applications. In addition, the continued expansion of low-power requirements and capabilities are important. The continuation of these trends are important for Atmel because it is the areas where we excel. These are some of the major areas investors should be looking for as they track Atmel performance.

TWST: In conclusion, what would compel an investor to include ATML in his/her current portfolio and long-term investment strategy?

Mr. Laub: Atmel provides the opportunity for investors to have a company that offers both substantial revenue growth and margin expansion at a rate significantly faster than most other companies in its industry. As an indication, last quarter we grew sequentially as a company 13%, and our guidance for this quarter is to grow sequentially 6% to 10%. These are substantially faster than most companies in our industry. We participate in marketplaces that allow us to continue to have very high growth and, unlike other companies, we are also experiencing very substantial margin expansion.

As I mentioned, last quarter (Q2 2010) our gross margin was 40.6%, the highest since the fourth quarter of 2000. This quarter we anticipate gross margins will rise between 43% and 45%. We have raised our gross margin guidance so that by the end of 2012, we can achieve gross margins of 50%. We offer the rare combination of both high growth and very substantial increasing profitability. I don't think many other companies offer that combination.

TWST: Thank you. (KL)

TWST sat down with Atmel President and CEO Steve Laub on August 9, 2010

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