

Microsemi

1998
annual
report



president's Letter

Industry-wide, for both chip makers and those who supplied equipment to the industry, '98 was a terrible year. Microsemi, however, in contrast to the market decline of 10% to 15%, posted a sales increase.

For FY 98, revenues were \$164.7, up from the reported \$163.2 million of FY 97, a 1% increase. Net income for fiscal 1998 was \$11.3 million compared with \$11.1 million reported in fiscal 1997, a 2% increase.

With the diversity of markets we serve, even though one of our major market segments, space satellite, was down 25%, and other markets that caught the Asian flu also suffered, we had a net sales gain. Medical and military sales were strong and compensated for the losses elsewhere.

With the acquisition of BKC Semi in May '98, we gained additional market share in the Military-Space marketplace and eliminated a competitor who was the only other supplier of Jan-S space level diodes.

At the close of the fiscal year we acquired the assets of Semicon, another Military market provider, and expect to gain an additional 3% to 5% market share, since literally all of Semicon's sales were in direct competition. Pricing in this should improve as a result of these acquisitions.



Philip Frey Jr.
President and CEO

Our strategy is to continue to search out and acquire companies with competing or complementary product lines to supplement internal growth that comes from new product introductions. In the area of new products we recently

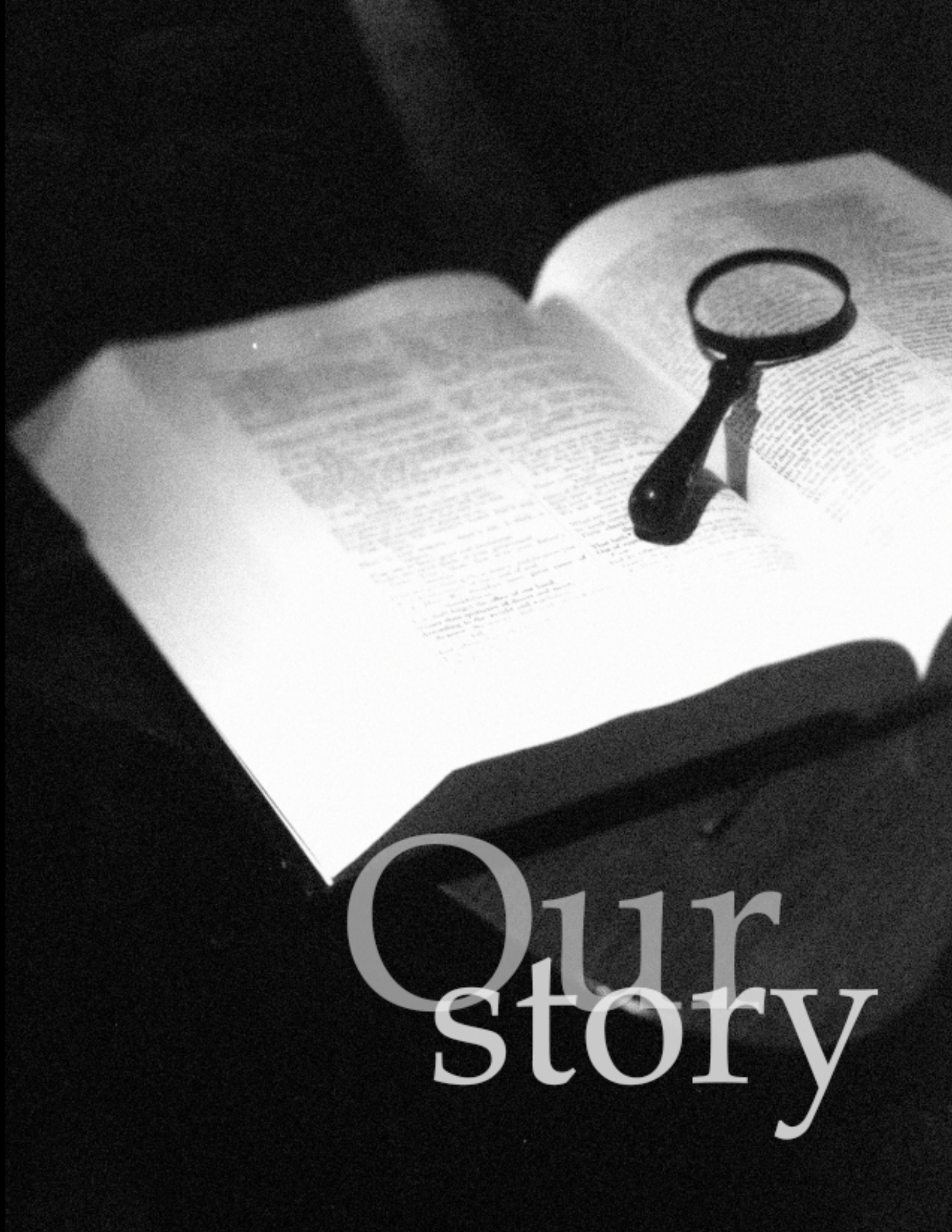
successfully introduced a multi-element transient suppressor on a single chip for application in the heart pacer market. This new device improves pacer performance, saves valuable circuit board space, and simplifies assembly for the pacemaker manufacturer. Our solar panel protector diode for the space station led to the further development of a similar device which will be used on a new high efficiency solar panel being proposed for use on a number of commercial satellites.

To expand the market for our patented Powermite® line of products we introduced a number of new device types and completed the design of Powermite® II, a higher power version of the original product.

As a result of our investment in Xemod, we have been licensed to produce and market LDMOS transistors, the newest technology being used in microwave multi carrier access and transmission equipment. Our prototype units are now in evaluation, with production expected by mid-1999.

Our diversity in both the markets we serve and applications we pursue has allowed Microsemi to build a stable and solid, profitable business even when business is slow. We attribute our success and expectations to this strategy. The following pages provide a synopsis of Our Story and provide a picture of our vision for growth in our thrust markets and products which have significantly contributed to, and which we expect will continue to sustain our growth.

As we look forward to the global opportunities and challenges of the new fiscal year, we extend our thanks to our shareholders, customers, suppliers, and employees for their contributions and support.



Our Story



Charting our future by focusing on "niche" opportunities

In a world where every day brings a new start up company, a new software program, a new generation computer system, or a smaller mobile phone, it is critical for Microsemi to focus on high growth and highly profitable opportunities.

Microsemi was founded as a military/aerospace supplier. Today we focus on markets and opportunities where we can bring value through service, innovation, and performance. Every new generation ushers in innovative concepts that revolutionize life as we know it. From palm top computers that browse the Internet, to satellite phone networks, every new design concept sets out to serve a specific niche.

Microsemi's profitable track record can be attributed to our focus on these "niche" opportunities.

implantable medical

Microsemi continued to grow its revenues in this niche market segment by developing innovative new "Flip Chip" Integrated Arrays that allowed manufacturers to reduce their assembly costs without sacrificing life sustaining levels of reliability.



satellites

Microsemi continued to develop custom application specific power modules for Satellite Battery Management. By leveraging our component count, Microsemi is able to work with suppliers to supply the next level sub-assembly.

In other applications Microsemi continued to expand its customer base and revenues with its ultra thin diode products for satellite solar panel protection.



mobile communications

Microsemi's patented Powermite® product line brought continued success in 1998. With several new mobile phone design wins, we are uniquely positioned to serve a niche market where product density and power handling capability are critical.



Our technology leadership position in Transient Voltage Suppressor products has remained successful in niche applications where we have been able to provide up to 3X the power handling capability of our competitors while maintaining the same physical size.



focus
ON
niches

Some people just make cubes, others just make spheres. We cover the spectrum. We watch markets rise and others fall. The next year it happens in the exact opposite fashion. Some companies ride the rollercoasters and tidal waves...we do not!

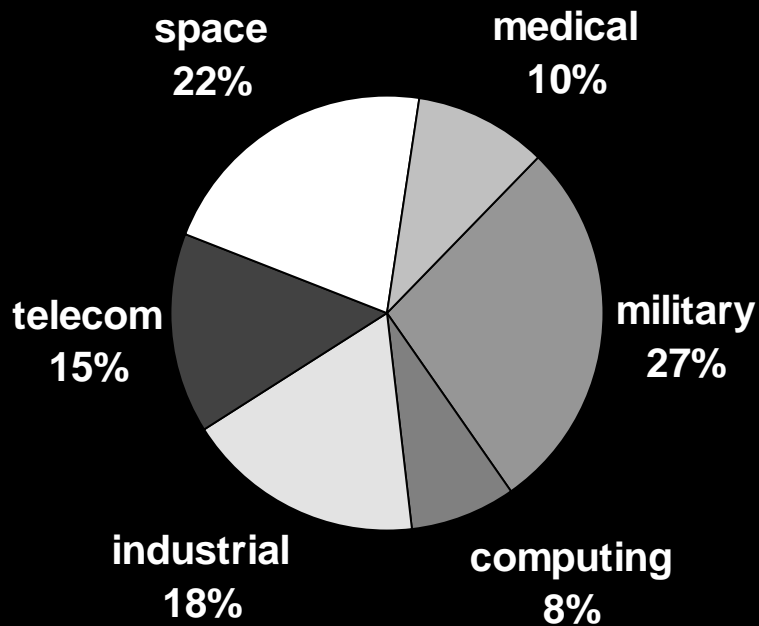
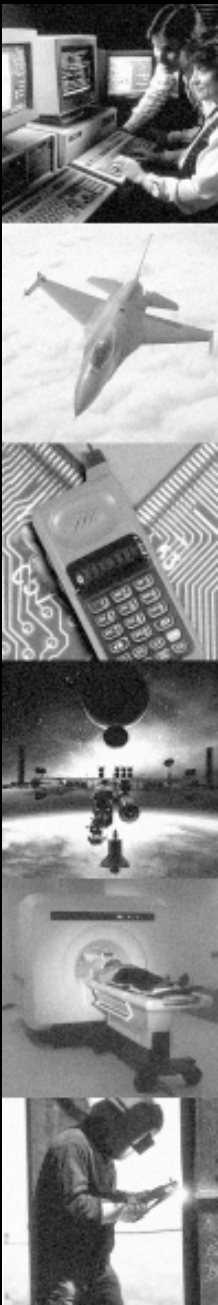
In fact, this past year the entire semiconductor market was down 10% and we still grew.

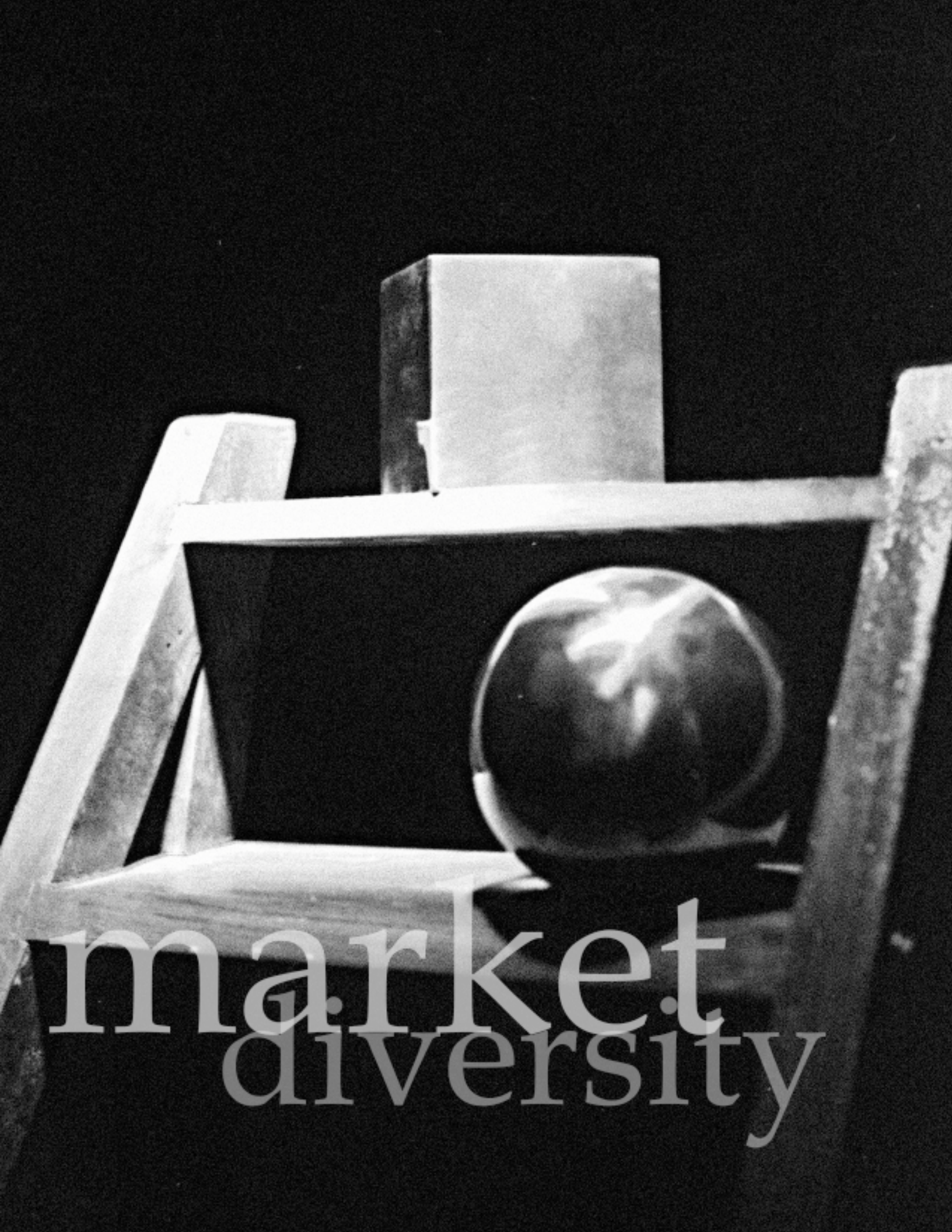
Microsemi Corporation is a global supplier and is thus susceptible to regional economic conditions like the Asian flu. Yet our strategy to maintain our diverse market segments has made us less susceptible to the downsides others experienced in the 1998 marketplace.

The military market, abandoned by most major discrete suppliers, turned out to be an area of strength for us this year.

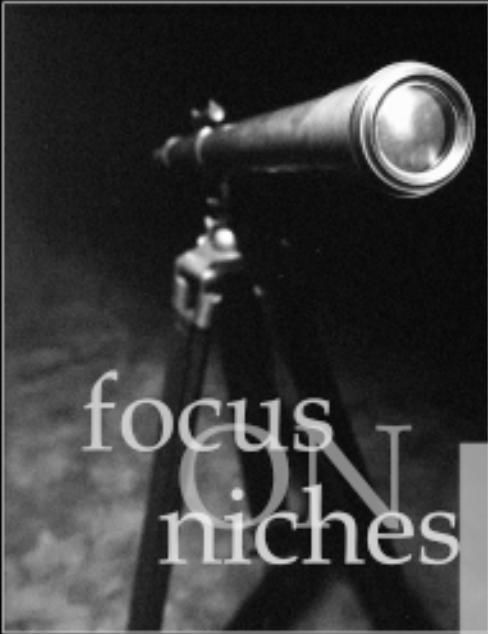
Our products range from simple diodes for battery charger applications to complex application specific military/space qualified power modules.

Our stability and consistent growth is attributed to our market diversity.

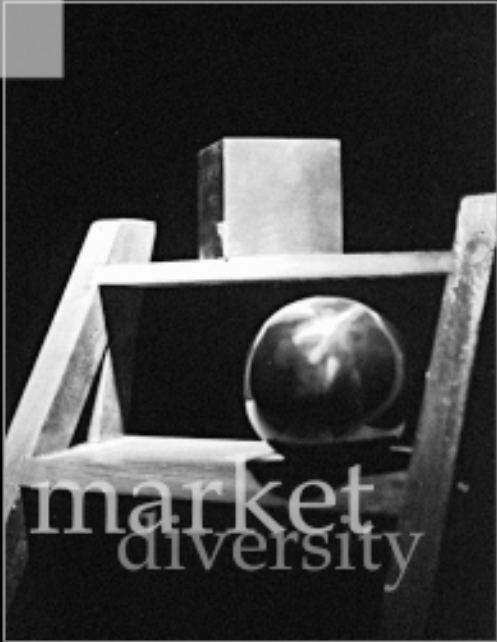




market
diversity

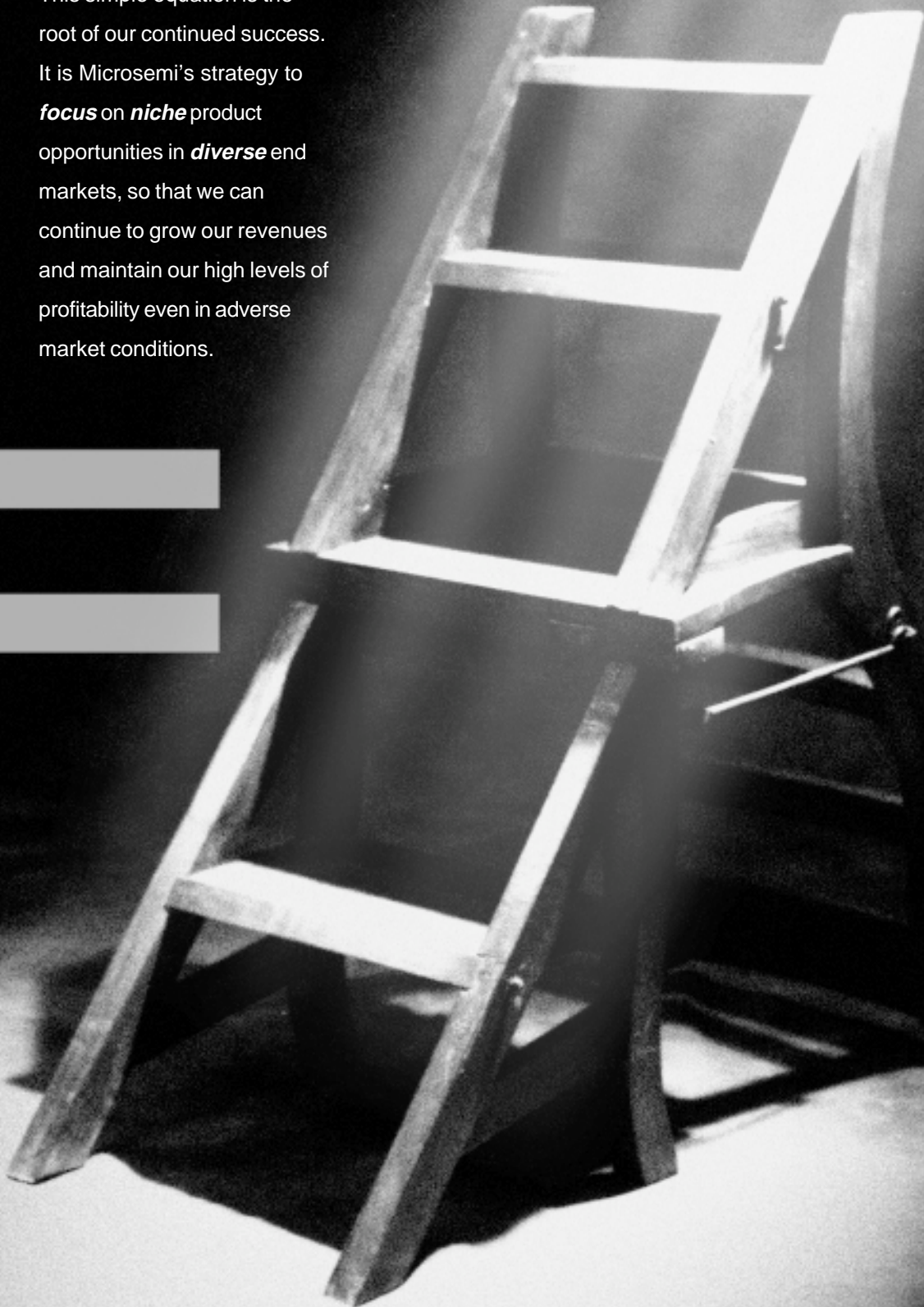


Focus x Niches + Diversity = Stable Growth



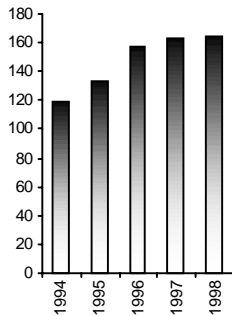
Growth

This simple equation is the root of our continued success. It is Microsemi's strategy to **focus** on **niche** product opportunities in **diverse** end markets, so that we can continue to grow our revenues and maintain our high levels of profitability even in adverse market conditions.



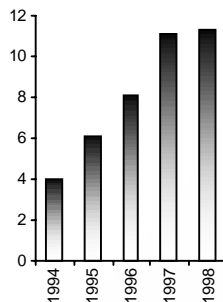
revenues

(\$ Millions)



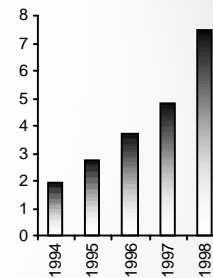
net income

(\$ Millions)



equity per share

(\$)



Microsemi Corporation is a global supplier of high reliability power semiconductors for the Satellite, Telecommunications, Computers and Peripherals, Military/Aerospace, Industrial/Commercial, and Medical markets. The company's semiconductor products include diodes, transient voltage suppressors (TVS), transistors, silicon controlled rectifiers (SCR's), opto products and application specific modules which can be used in virtually all electrical and electronic circuits. Typical functions include solid state switching, signal processing, voltage and power regulation, circuit protection, and absorption of electrical surges and transient voltage spikes. Technologies for these devices range from the very mature mesa rectifier diodes, still used in all power supply applications, to the newly designed micro-miniature transient absorbers which are mounted within the cables used to connect computer and telecommunications equipment. These semiconductor products are targeted at high growth, niche applications in our diverse markets. Microsemi high reliability components are found in commercial and military aircraft, human implantable medical devices, missile

systems, and all U.S. and European launch vehicles and spacecraft. Commercial and industrial applications include electric vehicles, cellular/mobile phones, locomotives, electric welders, computers, telecommunication systems, outboard motors, etc. - virtually any place electricity is used. The Company maintains engineering and manufacturing facilities in California, Arizona,

Colorado, Florida, Pennsylvania, and Massachusetts, with additional manufacturing support capacity in Ireland, Mexico, Hong Kong, Shanghai, and Bombay, India.

profile

corporate

financial highlights

1998 overview

Financial Highlights	Fiscal Year 1998	Fiscal Year 1997	Percent Change
Net Sales	\$164,710,000	\$163,234,000	1%
Operating Income	\$20,459,000	\$22,519,000	-9%
Provision for Income Taxes	\$6,939,000	\$7,455,000	-7%
Net Income	\$11,322,000	\$11,051,000	2%
Weighted-Average Common Shares Outstanding			
Basic	10,735,000	8,493,000	
Diluted	11,956,000	11,901,000	
Basic Earnings Per share	\$1.05	\$1.30	-19%
Diluted Earnings Per share	\$0.98	\$1.03	-5%
Backlog of Unfilled Orders	\$51,000,000	\$77,100,000	-34%
Working Capital	\$57,063,000	\$55,813,000	2%
Current Ratio	2.5	2.4	4%
Long-term Debt to Equity	0.2	1.1	-82%
Stockholders' Equity	\$87,017,000	\$41,909,000	108%
Equity per Share	7.46	4.80	55%

market prices of common stock

The following table shows the closing price range for the Company's Common Stock for the quarterly periods indicated as reported by NASDAQ.

Fiscal 1998:	High	Low	Fiscal 1997:	High	Low
First Quarter	17 ³ / ₄	13 ⁷ / ₈	First Quarter	14 ¹ / ₈	9 ⁵ / ₈
Second Quarter	22	15 ¹ / ₂	Second Quarter	15 ¹ / ₂	11 ¹ / ₄
Third Quarter	16 ¹ / ₂	9 ⁹ / ₁₆	Third Quarter	14	11 ¹¹ / ₁₆
Fourth Quarter	11 ¹ / ₂	6 ⁵ / ₈	Fourth Quarter	17 ¹ / ₂	12 ⁵ / ₈

sales & marketing

Microsemi continues to outpace the growth of the discrete semiconductor industry. A key ingredient of our success is FOCUS and its reward is LEADERSHIP in our chosen markets as reflected by profitable MARKET SHARE.

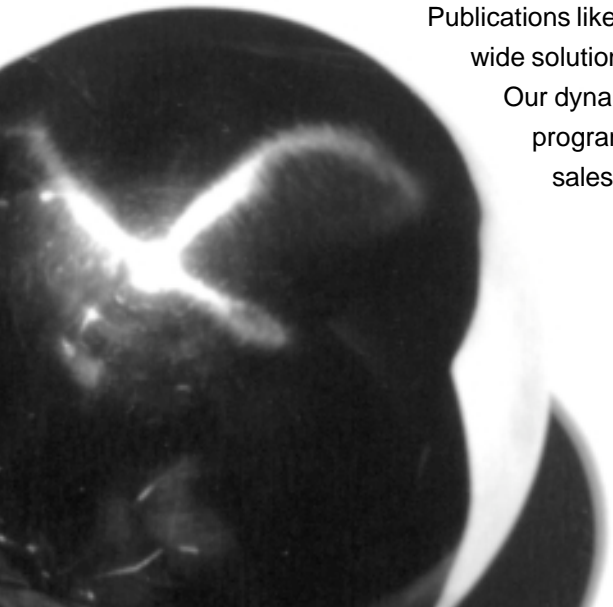
Microsemi is the #1 supplier of discrete components to Mil-Aero, Satellites, and Implantable Medical devices in the world. Overall the company has moved up to the #3 position of U.S. based semiconductor suppliers in the diodes, rectifiers and TVS product segment.

Microsemi will continue to outpace the market through targeted acquisitions and targeted new product introductions supporting our existing and new focus niches. In FY98 Microsemi strategically positioned itself and made significant inroads into wireless communication applications and we expect our market share to grow in this segment in the coming years.

On the service front, it is FOCUS on our key customers that continues to move us toward a customer-centric enterprise culture. In FY98 we re-structured our Marketing efforts to convey a single company image by the way we look and the way we go to market; and the company integrated multidivisional activities into focused programs for acquisition of new customers and improved service metrics to our existing key accounts.

Publications like our Microcurrents continue to focus on corporate wide solutions to specific applications in our chosen markets.

Our dynamic Web site, wide area network and E-Commerce program are all coming together to support our ONE on ONE sales and service approach around the world.



directors and corporate officers

Philip Frey, Jr.	Chairman of the Board, President and Chief Executive Officer
David R. Sonksen	Vice President Finance, Chief Financial Officer, Treasurer and Secretary
Robert B. Phinizy	Director, Private Investor; Consultant
Martin H. Jurick	Director
Joseph M. Scheer	Director, Private Investor; Consultant
Brad Davidson	Director, President of Securities Pricing and Research, Inc.
Andy T.S. Yuen	Vice President International Operations
James M. Thomas	Vice President Human Resources
Eduardo R. Fernandez	Vice President Sales and Marketing

independent accountants

PricewaterhouseCoopers LLP
Costa Mesa, California

general counsel

Stradling Yocca Carlson & Rauth
Newport Beach, California

registrar and transfer agent

ChaseMellon Shareholder Services
400 South Hope Street
Los Angeles, California 90017

subsidiaries

Microsemi Corp. - Scottsdale Scottsdale, Arizona	Microsemi Corp. - Colorado Broomfield, Colorado	Micro UPSD, Inc. Watertown, Massachusetts
Sertech Laboratories, Inc./SSI Watertown, Massachusetts	Microsemi RF Products, Inc. Montgomeryville, Pennsylvania	Microsemi PPC, Inc. Riviera Beach, Florida
Microsemi (H.K.) Ltd. Hong Kong	RPM-Micro Escondido, California	Micro (Bermuda), Ltd. Ennis, Ireland
Semcon Electronics Pvt., Ltd. Bombay, India	BKC Semiconductors Inc. Lawrence, Massachusetts	

annual meeting

The annual shareholders' meeting will be held at the Corporate Headquarters, 2830 South Fairview Street, Santa Ana, California, on February 23, 1999 at 10:00 a.m.



Microsemi

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