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Dear Client:

**In 1983 (four years after we started publishing this newsletter) we made a bold prediction that has come true: high-tech's impact on our economy would rival that of state employment.**

We were criticized by some for our effusive forecasting in the wake of the decision by Microelectronics and Computer Corporation (MCC) to locate in Austin. After all, **there were no high-tech companies here at the time** (IBM predates this period, but its facility in North Austin made not-so-high-tech Selectric typewriters).

MCC was a consortium that was given a governmental anti-trust-pass so the nation's top high tech companies could combine their research resources in MCC to offset Japan's growing influence in the high tech marketplace. **MCC was so successful, it worked itself out of business. But MCC's decision influenced others to set up shop in Austin.** Specifically, another research consortium, SEMATECH. And soon, other high-tech related companies were springing up everywhere in the Austin area. Now high-tech employment rivals that of state government jobs.

Some now refer to this as "The SEMATECH Effect" (acknowledging MCC's groundbreaking efforts, even though MCC no longer exists). **SEMATECH is also being called "the world's most successful consortium."** It is thriving in Austin to the point that New York has been throwing money at the consortium to entice it to move northward. NY was partially successful, gleaning a small portion of SEMATECH's business.

How important is SEMATECH to the Austin area? It induces significant growth to spring up around it. Available data show that **the presence of SEMATECH engenders local and statewide benefits far beyond its approximately 400-person size.**

Headquartered in Austin since 1987, **SEMATECH has become the "glue" that holds together an intricate and vast cluster** of high-tech manufacturers, suppliers, downstream support companies and consumer businesses, according to the consortium's recently released annual report.

This is an amazing story. Let's look at the specifics in the next item.

**Nearly 125,000 people work at approximately 2,000 technology companies in the Austin area alone. This is huge and it's all happened in the past 25 years. SEMATECH is a large part of this major economic development whose impact reaches beyond Austin's borders to statewide.**

Nationally, Texas ranks second among states in the number of employees, value of shipments and capital investments in the computer and electronics industry. Several major high-tech employers acknowledge that SEMATECH's stature was a **factor in leading them to establish or expand operations in the Lone Star State**, according to the consortium's annual report.

For instance, Freescale Semiconductor, with 5,600 employees in Texas out of 22,000 globally says "**having SEMATECH in Austin was a plus**" in Freescale's decision in 2005 to locate its corporate headquarters here. And Samsung, about a week after joining SEMATECH as a full member, reportedly selected Austin as the top choice for a new \$3.5 billion microchip plant slated to employ 900 people.

Clearly, Austin and Texas benefit hugely from the presence of the world's most influential microchip consortium. New York Governor **George Pataki** (remember his state is one of our economic competitors) said "**The impact of International SEMATECH on the Austin regional economy has been dramatic.**"

The SEMATECH Effect does more than attract new business – **it contributes to the sprouting of home-grown companies as well.** Examples are emerging at the Advanced Materials Research Center (AMRC), a program SEMATECH established jointly with the State of Texas and the UTSysstem. The AMRC was established in 2004 to develop leading-edge capabilities for advanced semiconductors and to identify and commercialize cutting-edge products in nanotechnology and related areas.

Since the AMRC began, SEMATECH and its research partners have produced **more than 200 technical reports, more than 80 invention disclosures and in excess of 50 patent filings.** And a number of companies have benefited through collaborations with SEMATECH or its research partners in the AMRC. An example:

**Molecular Imprints (MII) is based in Austin and employs about 90 people.**

MII researchers are collaborating with UTAustin professors and researchers from SEMATECH, IBM and HP. AMRC and UTAustin also purchased MII's lithography tools. MII provides enabling lithography systems for manufacturing applications in nanodevices, microstructures, advanced packaging, bio devices, optical components and semiconductor devices.

As this Austin example shows (and there are others, as well, with companies such as OrganicID, Omega Optics and Wireless Valley) **SEMATECH is helping to grow the next generation of high-value employers.** Such businesses are expected to create the technology clusters of industries and jobs that will benefit current and future generations.

**Austin now appears on the site list of most companies looking to locate or expand a high-tech business. And it jumped into this position quickly, in the world of economic cycle movements.**

Also, without a doubt, The SEMATECH Effect has proven to be an **indispensable element in the Austin area's strategy for economic success**. This effect extends beyond new business and job creation – in intangible, as well as tangible, ways.

*Intangibly*, it **brings international stature to the Central Texas economic community**. While hard to quantify (after all, this is the definition of “intangible”), you will be hard pressed to find anyone knowledgeable in the high-tech world who would dispute such a claim.

There are some very *tangible* broad-based results that support this international prestige. For instance, semiconductor analyst **G. Dan Hutcheson**, CEO of VLSI Research, is quoted in SEMATECH's annual report as crediting the consortium with “**slashing the industry's cost of new research by as much as 75%**.” The data shows that SEMATECH has had a significant impact on slowing the growth rate of R&D costs.”

Also, SEMATECH has helped **preserve the viability of the semiconductor industry** by successfully tackling some of its most challenging issues, including conversion to 300 mm wafers and validation of the newest form of lithography.

The other intangible that means so much throughout Central Texas is its **strong relationship with universities and colleges**, as well as the Austin community itself, that is inspiring and developing the next generation of skilled workers to drive our technology economy.

We've allocated a lot of space to this topic this week, but as SEMATECH is a magnet for corporate headquarters and facilities, a spur to new companies and factories, and an enabler of one of the world's most critical industries, we felt you needed to understand how SEMATECH **exerts a creative influence on Austin and Texas far greater than its own size and budget**.

**Austin has one of the best-educated workforces in the nation. You may have known this, but do you know the percentage of adults in Austin that have at least bachelor's degrees?**

Nationally, a little more than one-fourth of those 25 and older had at least bachelor's degrees in 2004 and 84% had high school diplomas (compared to one in ten adults with college degrees in 1970 and half with high school diplomas). **Seattle was the best-educated city in 2004 with just over half the adults having bachelor's degrees**, according to the Associated Press. Following closely were **San Francisco, Raleigh-Durham, Washington and Austin**.

**So, what kind of impression does South Austin's run-down, renown honky-tonk, the Broken Spoke, make on an urbane Brit travel writer for the *London Free Press*?**

He didn't write about the rusted-out, really-old tour bus with faded Lone Star Beer signs all over it that sits outside the entrance to the Broken Spoke. The writer, **Doug English**, called the South Lamar Blvd beer joint "one of the oldest dance halls in Texas." Then he went on to say:

**"There's a \$7 US cover charge, and it's obvious none of it gets spent on the décor.** Neon beer signs decorate the walls, the chairs are foldup and metal, the floor ripples when anyone walks by and the plywood ceiling, patched with sheets of tin, is so low if a guy's wearing a Stetson – and most were the night we visited – they barely clear it."

But, Doug, were the customers enjoying themselves? "A six-person country band had the patrons up doing what looked like the two-step," he wrote. **"They ranged in age from the 30s to the 70s** and the fact it was mostly couples didn't stop one older, white-haired guy, there by himself, from finding plenty of partners." That's it, Doug. No pretense. You were in a gen-yoo-wine Texas dance hall. Dance halls have been that way for years and, hopefully, will always be that way.

*Southern Living's* April 2006 edition focuses on eateries in Austin, highlighting **Uchi, Guero's Taco Bar, Ranch 616, the Driskill Grill and Jeffrey's**. About Uchi, the influential travel section reported "Tiny, inexpensive dishes fly, rapid-fire, out of chef **Tyson Cole's** kitchen and pack a big, Texas-size taste wallop."

Also in its April 2006 publication, *Men's Journal*, in its Best 50 Places to Live, cited a myriad of outdoor activities and pointed out that **"at mid-day the downtown Hike and Bike Trail is a raging river of lunch-hour athletes."** Austin is getting noticed quite a bit these days.

**Dr. Louis Overholster** (noting that April 15<sup>th</sup> is when the hand in your pocket isn't yours) points out that when it comes to a weapon of mass destruction, you can hardly beat the income tax!

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