

STEC CEO Not Worried About Encroaching Competition

NEW YORK (Dow Jones)--STEC Inc. (STEC) shares have taken a hit in recent days on concerns about encroaching competition, but the memory product maker's chief executive isn't worried about new players in the market.

"It's perfectly inevitable that people will have second or third qualified vendors in this market," Chairman and Chief Executive Officer Manouch Moshayedi said in an interview. "The market is going to be very large, and as a large market it's going to attract multiple players. We never expected to be a single source in this market forever."

Last week, privately held competitor Pliant Technology announced its entry into the enterprise solid-state drive market with its enterprise flash drive. Several analysts expressed concerns that new competition could weigh on STEC, and investors responded to the news by easing off the stock.

Shares have closed lower for the past seven trading days. On Monday, they closed down \$1.38, or 4.6%, at \$28.71.

STEC earnings have topped Street estimates in the last couple of quarters, helped by strong results from its key storage product, ZeusIOPS. Such solid-state drives are designed to replace disk drives and are built using NAND flash memory chips. The devices tend to be faster at retrieving stored data, more energy-efficient and more shock-resistant than disk drives. The downside is that they tend to cost much more than hard drives to store the same amount of data.

While investors may have some concerns about new players in the market, Moshayedi said the company still isn't facing any competition.

"It takes a lot of effort to go from a sample unit to shipping tens of thousands of units out there," Moshayedi said. "You don't snap your fingers and get there. Just because Pliant announced (a new line of products), doesn't mean competition."

He added he doesn't expect to see competition until companies get qualified, which takes about a year, putting any competition at the end of 2010.

STEC has been preparing for competition by moving its manufacturing facility to Malaysia, where costs are lower. Moshayedi said the company also has been building tens of thousands of drives on a quarterly basis.

"We're working a lot more efficiently than if we were just entering the market," Moshayedi said.

He added that STEC has been working on next-generation products, such as a 6-gigabyte SAS SSD, while Pliant's products are an older generation.

"We think that the market is going to go to 6-GB," Moshayedi said, adding that the current standard is for a fiber channel interface, which should transition to SAS 6-GB in 2012. "Pliant would need another year or a year and a half before it could become a player."

He added he expects the SSD enterprise market to be \$4 billion to \$5 billion within about five years.

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