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Cypress Reports Third-Quarter 2009 Results Last Updated: 10/15/2009

Third quarter 2009 earnings release

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Q3 results exceeded guidance

- | Revenue increased 15% sequentially
- | Gross margin exceeded 2008 peak
- | Debt free; Cash and investments of \$1.85 per basic share
- | TrueTouch™ touchscreen revenue continued to exceed expectations

SAN JOSE, Calif., October 15, 2009 — Cypress Semiconductor Corp. (NYSE: CY) today announced that revenue for the 2009 third quarter was \$178.7 million, up 15% from \$155.8 million for the prior quarter, and down 20% from \$222.7 million for the year-ago period (excluding SunPower).

Cypress recorded a GAAP net loss of \$19.7 million in the 2009 third quarter, or a diluted net loss per share of \$0.13. This compares with last quarter's diluted net loss per share of \$0.32 and diluted earnings per share in the year-ago third quarter of \$0.86.

Non-GAAP¹ net income for the 2009 third quarter—excluding stock-based compensation, acquisition-related charges, restructuring and other special charges and credits—totaled \$19.2 million, or diluted earnings per share of \$0.10. That compares with a non-GAAP¹ diluted net loss per share of \$0.03 for the prior quarter and diluted earnings per share of \$0.15 for the year-ago third quarter.

Cypress President and CEO T.J. Rodgers said, “Third-quarter revenue increased 15% sequentially, building on the 12% revenue growth we achieved in Q2. We exceeded the upper end of our guidance due to strong growth in CCD and MID attributable to our programmable products and increased share gains in our high-performance SRAMs. CCD grew 26% sequentially, led by our PSoC[®] family and USB products.

“PSoC revenue benefitted from seasonal strength, new customers and continued strong increases in our touchscreen revenue as initial design wins began to ramp into production,” Rodgers said. “We continue to achieve significant proprietary product design wins—especially with our TrueTouch touchscreen products, and expect to continue capturing increased market share in SRAMs.

“Our non-GAAP gross margin of 51.9% exceeded the 2008 peak non-GAAP gross margin due to strong factory performance, a higher percentage of wafer starts from our foundry partners and a higher mix of programmable and proprietary products,” Rodgers continued. “Lead times have not increased and customer ordering patterns continue to remain fairly short, however, we are encouraged that customers are providing increased backlog visibility. Our Q3 book-to-bill was 1.21, driven by PSoC and SRAMs.

“Cypress and the industry have seen two strong quarters of revenue growth,” said Rodgers. “While we can’t predict where the macro economy will go, we are seeing more positive signs of end-market stability and continued low overall supply chain inventories. We remain very proactive in managing our cost structure and have a very solid balance sheet with \$281 million in cash and investments with no debt. Customer acceptance of our new products remains very strong and we are pleased with high-profile design wins in many new end markets. In addition we recently launched our revolutionary PSoC 3 and PSoC 5 embedded solutions which increase the market addressed by PSoC from \$1.5 billion to \$15 billion.”

BUSINESS REVIEW

Non-GAAP¹ consolidated gross margin for the third quarter was 51.9%, up 7.7 percentage points from the previous quarter, and the highest reported since 2004. The increase was due mainly to higher factory absorption, increased wafer starts from our foundry partners and a favorable product mix. Excluding Emerging Technologies³, our Core Semiconductor⁴ non-GAAP gross margin was 53.7%, up 7.8 percentage points sequentially.

On a GAAP basis, third-quarter consolidated gross margin was 47.3%, up 10.6 percentage points from the previous quarter. Our Core Semiconductor⁴ gross margin on a GAAP basis was 49.1%.

Third-quarter net inventory increased slightly quarter-on-quarter, as expected, and net days of inventory fell by 5.3%. Net inventory decreased 33.5% on a year-over-year basis.

Non-GAAP¹ operating expenses were \$75.8 million, down 14.5% from the year-ago quarter as a result of our ongoing cost-reduction program, and down 17.2% excluding the non-cash charges of \$2.4 million from our deferred compensation plan.

Cypress has no outstanding debt as of the end of Q3 2009.

Cash and investments totaled \$281 million or \$1.85 per basic share.

Additional third-quarter data and comparisons relevant to Cypress's business units are presented below:

BUSINESS UNIT SUMMARY FINANCIALS (UNAUDITED)

THREE MONTHS ENDED
September 27, 2009

	CCD ²	DCD ²	MID ²	Core Semi ⁴	Emerging Tech. ³	Consolidated
REVENUE (\$M)	78.8	25.1	71.7	175.6	3.1	178.7
Percentage of total revenues	44.1%	14.0%	40.1%	98.2%	1.8%	100.0%
GROSS MARGIN (%)						
On a GAAP basis	49.5%	64.2%	43.4%	49.1%	(53.1%)	47.3%
On a non-GAAP ¹ basis	54.1%	68.8%	48.0%	53.7%	(48.5%)	51.9%

THREE MONTHS ENDED
June 28, 2009

	CCD ²	DCD ²	MID ²	Core Semi ⁴	Emerging Tech. ³	Consolidated
REVENUE (\$M)	62.3	25.5	66.2	154.0	1.8	155.8
Percentage of total revenues	40.0%	16.4%	42.5%	98.9%	1.1%	100.0%
GROSS MARGIN (%)						
On a GAAP basis	40.9%	57.3%	28.8%	38.4%	(115.0%)	36.7%
On a non-GAAP ¹ basis	48.0%	64.5%	36.8%	45.9%	(107.8%)	44.2%

1. Refer to “Reconciliation of GAAP Financial Measures to Non-GAAP Financial Measures” and “Notes to Non-GAAP Financial Measures” following this press release for a detailed discussion of management’s use of non-GAAP financial measures, as well as reconciliations of all non-GAAP financial measures presented in this press release to the most directly comparable GAAP financial measures.
2. CCD – Consumer and Computation Division; DCD—Data Communications Division; MID—Memory and Imaging Division.
3. “Emerging Technologies” – Business outside our core semiconductor businesses outlined in footnote 4. Includes wholly owned subsidiaries Cypress EnviroSystems and AGIGA Tech.
4. “Core Semiconductor” – Includes CCD, DCD and MID divisions and excludes “Emerging Technologies.”

THIRD-QUARTER 2009 HIGHLIGHTS

Programmable and proprietary products accounted for 82.8% of Cypress’s revenue in the third quarter, up from 79.2% of revenue in the second quarter.

Cypress introduced two new PSoC architectures, PSoC 3 and PSoC 5, and a revolutionary integrated design environment named PSoC Creator™. Cypress’s new PSoC 3 and 32-bit PSoC 5 architectures dramatically improve upon the analog and CPU performance of PSoC 1 and significantly expand Cypress’s addressed market from \$1.5 billion to more than \$15 billion. PSoC Creator is a unique design tool that allows engineers to “design the way they think,” using schematic-based design capture and dozens of certified, firmware-defined, pre-packaged peripherals.

Cypress licensed a broad range of intellectual property from ARM for use in next-generation programmable platforms, including its newest PSoC architectures. The license agreement includes the 32-bit ARM® Cortex™-M3 processor (which is being employed in the new PSoC 5 architecture) the ARM9™ processor, and more than 75 other IP elements.

Cypress introduced a new family of high-accuracy, multi-touch, all-point TrueTouch™ touchscreen solutions for mobile handsets, portable media players, notebook computers, digital cameras and other devices. The TMA300 family can track up to 10 finger points simultaneously and supports both traditional and multi-finger custom gestures.

Samsung has selected Cypress’s TrueTouch touchscreen solution to drive the user interface on its new 18910 “Omnia HD” mobile phone. The company is also using Cypress’s power-saving MoBL® Dual-Port interconnect in the phone to optimize multimedia performance.

Cypress’s water-resistant CapSense® touch-sensing solution is powering the touch control interface of Midea’s new TW025LC7-BR microwave oven. Midea is one of China’s largest appliance makers.

Cypress’s PowerPSoC® family of integrated power controllers has won *Design News* magazine’s “Golden Mousetrap” award for excellence in power management and control. PowerPSoC is the industry’s first single-chip solution that both controls and drives high-power LEDs.

WAC Lighting, a leading manufacturer of decorative and task lighting, has selected Cypress’s EZ-Color™ controller to drive the LEDs in its new color-changing INVISILED™ PALETTE tape light system for display and accent lighting markets. The EZ-Color controller manages red, green and blue diodes to create unique color-changing effects.

Cypress introduced a monolithic 144-Mb QDR SRAM. The new, 65-nm device offers the industry’s fastest clock speed of 500 MHz and data throughput of up to 80 Gbps, dramatically expanding the performance of networking and signal-processing applications.

Cypress introduced a new 1-Mbit serial non-volatile static random access memory (nvSRAM) family and new 4-Mbit and 8-Mbit parallel nvSRAMs with an integrated real-time clock. In the event of a power outage, nvSRAMs provide fail-safe battery-free data backup capabilities for storage, networking, gaming, automotive, industrial and embedded systems.

Cypress subsidiary AGIGA Tech Inc. introduced the AGIGARAM™ CAPRI family of battery-free, nonvolatile RAM devices. With up to an industry-leading two gigabytes of density, the CAPRI family preserves mission-critical data in high-end networking, storage, industrial and embedded market applications.

Cypress announced shipment of its one-billionth USB controller. The USB market leader, Cypress has been shipping USB products since 1996 and offers the industry's most complete portfolio of USB devices, including low-, full-, and high-speed controllers, embedded hosts, hubs, bridges, transceivers and wireless solutions.

Cypress also introduced two automotive (AEC-Q100)-qualified USB devices. The EZ-USB® HX2LP four-port, high-speed USB hub and EZ-Host™ full-speed USB host target navigation, infotainment, vehicle data recorders, data loggers and other applications.

Cypress introduced enCoRe® V full-speed USB and low-voltage wireless controllers. The devices offer more memory and more I/Os than their predecessors, supporting enhanced multimedia features in keyboards, mice, remote controls and other human interface devices.

Cytech Global Pte Ltd. has signed an agreement to distribute Cypress's complete line of proprietary and programmable solutions throughout India and the ASEAN countries.

Cypress's University Alliance Program and India's Bhubaneswar Institute of Technology will build a new PSoC laboratory at the institute in Bangalore. Cypress will provide hands-on training, kits and software to support the lab which will soon begin offering PSoC-based coursework to its electrical- and electronics-engineering students.

ABOUT CYPRESS

Cypress delivers high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and exceptional system value. Cypress offerings include the flagship PSoC® programmable system-on-chip families and derivatives such as PowerPSoC® solutions for high-voltage and LED lighting applications, CapSense® touch sensing and TrueTouch™ solutions for touchscreens. Cypress is the world leader in USB controllers, including the high-performance West Bridge® solution that enhances connectivity and performance in multimedia handsets. Cypress is also a leader in high-performance memories and programmable timing devices. Cypress serves numerous markets including consumer, mobile handsets, computation, data communications, automotive, industrial and military. Cypress trades on the NYSE under the ticker symbol CY. Visit Cypress online at www.cypress.com.

FORWARD-LOOKING STATEMENTS

Statements herein that are not historical facts and that refer to Cypress or its subsidiaries' plans and expectations for the fourth quarter of 2009 and the future are forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. We may use words such as "believe," "expect," "future," "plan," "intend" and similar expressions to identify such forward-looking statements that include, but are not limited to, statements related to the semiconductor market, our expectations regarding our Q409 and Q110 revenue; our expectations regarding seasonality in Q4; the strength and growth of our proprietary and programmable products, especially PSoC, PSoC3 and PSoC5, USB, CapSense and True Touch products; our TrueTouch, CapSense, PSoC and other high profile design win penetration; our expected market share in the SRAM market, our gross margins, supply chain inventories, customer backlog orders, visibility in the markets we serve, and our ability to outgrow the market in revenue once the economy recovers. Such statements reflect our current expectations, which are based on information and data available to our management as of the date of this release. This press release sets forth our preliminary and unaudited financial results for our third fiscal quarter. Our actual results may differ materially due a variety of uncertainties and risk factors, including but not limited to business conditions and growth trends in the semiconductor market, seasonality in the markets we serve, our visibility into the markets we serve, the stability of the ordering patterns of our customers, the accuracy of the point of sale reporting by our distributors, the demand and growth in the markets we serve, our ability to achieve lower operating expenses and to maintain a solid balance sheet, strong earnings and cash flow, the actions of our competitors, our ability to develop and roll out new products, our factory utilization, whether our products perform as expected, customer acceptance of Cypress and its subsidiaries' products as evidenced by design wins, whether the expected growth in the markets we serve materializes, our ability to maintain and improve our gross margins and realize our bookings, the financial performance of our subsidiaries, and other risks described in our filings with the Securities and Exchange Commission. We assume no responsibility to update any such forward-looking statements.

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