

CYPRESS Q299: REVENUE \$161.5 MILLION, EBG \$0.13, RECORD BOOKINGS

San Jose, California, July 20, 1999 . . . Cypress Semiconductor Corporation (NYSE: CY) today reported revenue for the second quarter ended July 4, 1999, of \$161.5 million, up 6.5% from the prior quarter's revenue of \$151.6 million and up 21.1% from the year-ago quarter's revenue of \$133.4 million.

After charges for acquisitions, net income for the quarter was \$8.5 million, resulting in basic and diluted earnings per share of \$0.08. Excluding pretax acquisition and restructuring-related charges and credits of \$6.0 million (herein collectively referred to as goodwill) for in-process R&D, and transaction costs and amortization of intangibles, net income was \$14.4 million, resulting in basic earnings before goodwill (EBG) of \$0.14 per share and diluted EBG of \$0.13 per share, a 44.4% improvement from the prior quarter's diluted EBG of \$0.09 per share and a significant turnaround from the year-ago quarter loss of \$0.07 per share before goodwill.

Cypress CEO T.J. Rodgers said, "Our performance in the second quarter represents our fifth sequential quarterly improvement in revenue. Cypress's priority, as outlined in our 1998 annual report, has been to grow our revenue faster than that of the semiconductor industry by dramatically increasing our new product revenue, not only through improved R&D efficiency, but also by acquiring related businesses with important intellectual property. Success in both of these initiatives made Q1 and Q2 of 1999 the best new products quarters in Cypress's history. New product momentum drove up our overall revenue by 21.1% over last year, a growth rate more than double that of the industry. (Note: The year-to-year quarterly 21.1% revenue growth rate is not driven by "acquired" revenue: the figures include the revenue of recently-acquired IC Works in both Q2 1998 and Q2 1999.)

Rodgers continued, "It appears that we will continue to grow revenue for the rest of 1999 for three reasons. First, Cypress booked a record \$204.5 million in the second quarter for a book-to-bill ratio of 1.30—enough, barring an unforeseen problem, to ensure growth in the traditionally slow summer quarter. Second, our customers are beginning to book the traditionally strong fourth quarter earlier than in recent years, giving us more time to react to their demand. And third, as we previously announced, we have anticipated this increase in demand and have been ramping both our Minnesota and Texas wafer fabrication plants over the last two quarters.

Rodgers continued, "Our diluted EBG of \$0.13 per share, up from \$0.09 last quarter, reflects higher new product margins and an increase in manufacturing efficiency. These two factors combined to raise gross margins to 44% from 41% in the first quarter. Aided by higher ASPs from new products, our aggregate corporate ASPs remained flat with last quarter and each of our segments produced an earnings improvement. All in all, we were pleased with our performance in the quarter."

ACQUISITIONS AND BUSINESS DEVELOPMENT

Cypress completed the following acquisitions and major business alliances during the quarter:

- May 5, 1999—Cypress announced a partnership with Echelon Corporation to build its Neuron® Network Processor, a highly specialized microcontroller chip that enables heating and air conditioning systems, appliances and other devices to be networked in home, industrial, building and transportation applications worldwide. Recently, Cisco Systems' CEO, John Chambers, hosted a video conference demonstrating the use of Echelon technology to control systems remotely, using the Internet. Echelon markets the systems and software for industrial-control applications but does not manufacture silicon. Cypress is now licensed as one of two worldwide sources to manufacture the Neuron chip, which will be sold to Echelon as well as other industrial customers.
- May 25, 1999—Cypress announced the acquisition of Anchor Chips, Inc., a privately held company based in San Diego, California, that designs and markets microcontroller chips to support the Universal Serial Bus (USB), the new standard bus to hook up peripherals to PCs. Anchor Chips' USB offerings are aimed at high-speed applications, including printers, scanners, xDSL modems and digital cameras, all new areas for Cypress's USB effort. Under the terms of the agreement, Cypress acquired Anchor Chips in a cash transaction totaling approximately \$15 million. The transaction was effective May 21, 1999, and was reported using purchasing accounting. This acquisition is expected to be accretive to earnings and to strengthen Cypress's position as the leading supplier of USB interface products (10 million units already shipped).
- June 30, 1999—Cypress announced the acquisition of Arcus Technology, a privately held data communications company with 70 engineers. Arcus is based in Fremont, California and Bangalore, India. Under the terms of the agreement, Cypress acquired Arcus for cash and stock totaling approximately \$20 million. The acquisition was reported using purchase accounting. Arcus specializes in important new data communications arenas, including dense wave division multiplexing (DWDM allows multiple signals to be transmitted over a single fibre optic cable) and "IP over SONET" (the technology needed to code and de-code Internet traffic to send it over the telephone system). This acquisition is consistent with Cypress's basic business, two-thirds of which now derives from datacom and telecom markets.
- In two separate developments, Cypress expanded its distribution network by extending its partnership with Arrow Electronics to include the entire Asia-Pacific territory and by adding Macnica, a Japanese electronics distributor.
- The integration of IC Works, Inc., (an acquisition effective April 1, 1999) is on schedule. IC Works contributed this quarter to Cypress's revenue growth and continues to be accretive to Cypress's earnings.

NEW PRODUCTS

Cypress posted its best two quarters for new revenue ever in Q1 and Q2 1999. A description of key new products follows:

- The PREMIS™ (Peak Reducing EMI Solutions) family consists of five system timing chips that allow the user to vary the frequency of a system's master clock in a controlled way (called "spread spectrum"), significantly reducing the electromagnetic interference (EMI) produced by that system. The federal communications commission (FCC) imposes a strict limit on the EMI of games, computers, and other systems to keep the radio frequency airwaves clear of noise. The PREMIS timing chip family will help our customers to make quieter systems that pass the FCC's tests more easily.
- As a broad-based supplier of system timing chips ("clocks") to the PC industry, Cypress introduced the W134, the first PC clock chip compliant with Intel's Rambus™ architecture, as well as a new clock chip, the CY22K7, for Advanced Micro Devices' Athlon™ (K7) architecture. Cypress already supplies the clock chip for Apple's iMAC™ desktop computer.
- The CY7C057 family of dual-port RAMs consists of four communications memories with the highest data bandwidth ever announced, 7.2 gigabits per second. One of these memories in a communications link can receive, store, retrieve, and send out 180,000 typed pages of information per second.
- The Delta39K™ family of eight complex programmable logic devices (CPLDs) is the densest CPLD family introduced to date. Complex PLDs currently range from approximately 1,000 equivalent logic gates to about 30,000 gates. Our new CPLD architecture, designed in an advanced 0.18-micron, six-level metal technology, starts with a product containing 50,000 gates and moves the density bar to 350,000 gates for the largest member of the family, the Delta39K350.
- Cypress introduced and ramped volume production of the 7C660xx series of USB hubs for PC motherboards. These USB products allow PC system makers to expand the number of USB ports on PCs from two to five. The 7C660xx family features the industry's first hubs compliant to the USB 1.1 specification. Our chips have been designed in by several leading PC makers.
- The Anchor Chips AN2100 series of high speed USB chips are flexible, SRAM-based devices that offer Renumeration™, a proprietary feature that allows application software to reconfigure PC peripheral devices once they are connected. These devices are already shipping into Flash-disk, ADSL modem and data networking applications.

Rodgers concluded, "We are pleased with our performance this quarter. We posted significant improvements in revenue and earnings and set a record for bookings. We made significant strategic progress with the acquisitions of Anchor Chips and Arcus, the alliance with Echelon, and the efficient integration of IC Works. We are looking forward to continued sequential improvement in revenue and profits in the second half of 1999. And I have challenged our employees to beat the Q4 1995 revenue record of \$177.3 million in the third quarter."

Press Release

Cypress Semiconductor Corporation is an international supplier of high-performance integrated circuits with worldwide headquarters in San Jose, California. The company provides a broad range of products for leading computer, networking, and telecommunications companies worldwide. The company's product line includes static RAMs, high-speed PROMs, and specialty memories; programmable logic devices (PLDs); data communications products; and timing devices and USB microcontrollers. Cypress shares are listed on the New York Stock Exchange under the symbol CY. The company has a site on the worldwide web at <http://www.cypress.com>.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Cypress's business that are not historical facts are "forward-looking statements" involving risks and uncertainties, including, but not limited to, market-acceptance risks, the effect of global economic conditions and shifts in supply and demand, the impact of competitive products and pricing, product development, commercialization and technological difficulties, and capacity and supply constraints.

In addition, the above news release contains forward-looking statements regarding the acquisition of IC Works, Anchor Chips, Arcus Technology and the alliance with Echelon. The impact of these acquisitions on Cypress's operating results, future market demand and acceptance of Cypress's and acquired businesses' products and development of new business and products of the combined company involves risks and uncertainties. Cypress's actual results may vary materially from the results discussed in the forward-looking statements. Factors that may cause such a difference include those risks surrounding the integration of the acquired businesses, timely development, production and continued and increased market acceptance of the combined companies' products, the ability of the combined company to compete in the highly competitive and rapidly changing marketplace and the other risks detailed from time to time in Cypress's periodic reports filed with the Securities and Exchange Commission, including but not limited to its report on Form 10-K for the fiscal year ended January 3, 1999 and its reports on Form 10-Q for the first quarter of 1999 ended April 4, 1999.

Press Release

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEET

(In thousands, except per share data and share amounts)

	(Unaudited)	
	Jul 4, 1999	Jan 3, 1999
ASSETS		
Current assets:		
Cash and short-term investments **	\$ 168,389	\$ 160,561
Accounts receivable, net	86,305	68,955
Inventories, net	74,993	65,096
Other current assets	<u>24,324</u>	<u>14,372</u>
Total current assets	354,011	308,984
Property and equipment, net	337,610	348,936
Long-term investments **	90,823	57,046
Restricted investments **	59,481	59,742
Other assets	<u>40,078</u>	<u>8,223</u>
Total assets	<u>\$ 882,003</u>	<u>\$ 782,931</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 65,069	\$ 53,932
Accrued liabilities	38,105	33,145
Deferred income on sales to distributors	17,483	13,300
Income taxes payable	<u>14,793</u>	<u>13,591</u>
Total current liabilities	135,450	113,968
Convertible subordinated note	160,000	160,000
Deferred income tax	10,364	--
Other long-term debt	<u>7,554</u>	<u>10,240</u>
Total liabilities	313,368	284,208
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized; none issued and outstanding	--	--
Common stock, \$.01 par value, 250,000 share authorized; 109,991 and 109,586 issued; 105,010 and 102,123 outstanding	398,536	318,098
Retained earnings	<u>170,099</u>	<u>180,625</u>
Total stockholders' equity	<u>568,635</u>	<u>498,723</u>
Total liabilities and stockholders' equity	<u>\$ 882,003</u>	<u>\$ 782,931</u>

** Cash at July 4, 1999 totals \$318,693.

Press Release

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share data)

	THREE MONTHS ENDED			SIX MONTHS ENDED	
	(Unaudited)			(Unaudited)	
	Jul 4, 1999	Jun 29, 1998	Apr 4, 1999	Jul 4, 1999	Jun 29, 1998
Revenues	\$ 161,523	\$ 133,376	\$ 151,591	\$ 313,114	\$ 265,529
Costs and expenses:					
Costs of revenues	90,230	91,747	88,803	179,033	217,067
Research and development	32,335	28,648	30,950	63,285	55,669
Selling, general and administrative	25,386	21,779	23,439	48,825	45,551
Acquisition and merger costs	6,062	-	3,742	9,804	-
Restructuring costs	(100)	1,900	(3,711)	(3,811)	60,796
Total operating costs	153,913	144,074	143,223	297,136	379,083
Operating Income (loss)	7,610	(10,698)	8,368	15,978	(113,554)
Interest expense	(2,463)	(2,817)	(2,323)	(4,786)	(5,803)
Interest income and other	3,805	3,278	3,096	6,901	3,386
Income (loss) before income tax	8,952	(10,237)	9,141	18,093	(115,971)
(Provision) benefit for income tax	(472)	1,016	(457)	(929)	10,995
Net income (loss)	\$ 8,480	\$ (9,221)	\$ 8,684	\$ 17,164	\$ (104,976)
Basic net income (loss) per share	\$ 0.08	\$ (0.09)	\$ 0.09	\$ 0.17	\$ (1.02)
Goodwill net of taxes per share	\$ 0.06	\$ -	\$ 0.04	\$ 0.10	\$ -
Restructuring costs (credits) net of taxes per share	\$ -	\$ 0.02	\$ (0.04)	\$ (0.04)	\$ 0.54
Basic earnings (loss) before goodwill per share	\$ 0.14	\$ (0.07)	\$ 0.09	\$ 0.23	\$ (0.48)
Diluted net income (loss) per share	\$ 0.08	\$ (0.09)	\$ 0.09	\$ 0.17	\$ (1.02)
Add goodwill net of taxes per share	\$ 0.05	\$ -	\$ 0.04	\$ 0.09	\$ -
Less restructuring credits net of taxes per share	\$ -	\$ 0.02	\$ (0.04)	\$ (0.04)	\$ 0.54
Diluted earnings (loss) before goodwill per share	\$ 0.13	\$ (0.07)	\$ 0.09	\$ 0.22	\$ (0.48)
Shares used in per share calculation:					
Basic	104,094	102,475	97,319	100,707	102,491
Diluted	109,100	102,475	100,916	105,008	102,491



CYPRESS
Cypress Semiconductor
3901 North First Street
San Jose, CA 95134