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Cypress Q400 Records: Revenue, $370 Million; Earnings, EBG $0.74 Per Share

SAN JOSE, California…January 23, 2001 -- Cypress Semiconductor Corporation (NYSE:CY) today announced record annual revenue for fiscal year 2000 of $1.288 billion, the first billion-dollar year in the company's history. The revenue is up 73% from last year's revenue of $745.0 million. Revenue of $370.0 million for the fourth quarter of fiscal year 2000 ended December 31, 2000 was up 5% from the prior quarter's revenue of $352.7 million and up 68% from revenue of $219.9 million in the fourth quarter of 1999.

Net income for the year 2000 excluding goodwill (acquisition-related costs and non-recurring items) was $329.2 million--more than three times 1999's net income of $88.1 million--resulting in a record diluted earnings before goodwill (EBG) of $2.39 per share, triple that of 1999's EBG of $0.76 per share. Net income for the fourth quarter, excluding goodwill, was a record $105.3 million, resulting in EBG of $0.74, up from last quarter's EBG of $0.70 and 2.5 times greater than the EBG of $0.30 reported in the 1999 fourth quarter.

Cypress CEO T.J. Rodgers said, "During the fourth quarter, Cypress exceeded its long-standing goal of reaching $1 billion in revenue with $250 million in pre-tax profits. We're

also proud to have grown at a rate of 73% in 2000, twice the semiconductor industry growth rate of 36%.

"Ironically, in this record quarter, we witnessed the beginning of a slowdown in demand in our predominantly communications-oriented end markets. This was exacerbated by a slowdown in the PC market, which typically achieves a strong showing in the December quarter. Consequently, on November 30, 2000, we re-forecasted to 4-5% quarter-on-quarter revenue growth and EBG of $0.72 per share for the fourth quarter. We delivered on both our revenue and earnings guidance. Despite weak bookings during the quarter, we grew revenue 5%, realized a book-to-bill ratio of 1.05, had relatively firm pricing, improved our gross margins to 59% and set record earnings."

Market Segments

Last quarter, Cypress announced the formation of four new divisions aligned to market segments rather than product lines. These segment profit and loss (P&L) centers were formed to enhance our focus on communications. These new P&L centers, by which we will report our financial results in the future, are the Wide Area Network (WAN) Division, the Storage Attached Network (SAN) Division, the Wireless Infrastructure (WIN) Division and the Wireless Terminal (WIT) Division. This report is structured around the performance of and key developments in these divisions.

Wide Area Network and Storage Attached Network (WAN/SAN)

Sales of the WAN/SAN divisions rose sharply, posting a 13% quarter-on-quarter gain to account for 44% of Cypress's revenue. Cypress anticipates that the WAN/SAN segment will grow 5% during the first quarter of 2001, despite demand softening in the

communications market. We anticipate WAN/SAN revenue growth due to increased market penetration of our NoBL™ (No Bus Latency) communications memories and also the impact of guaranteed contracts signed with key customers. WAN/SAN segment highlights for the quarter include:

- Cypress introduced Silicon Light Machines (SLM), acquired in September, to several of our "teaching" customers, including Nortel Networks, JDS/Uniphase, and Pluris, to help define SLM's next-generation fiber-optic networking products. SLM has decided to target its Micro Electrical Mechanical Systems (MEMS) technology on two new highly integrated optics products that will process in parallel all 160 wavelengths used in advanced Dense Wave Division Multiplexed (DWDM) fiber optics transmission systems. The multichannel MEMS devices will feature integrated optics and electronics. They will be modified versions of the MEMS devices already being manufactured for SLM in Cypress's Round Rock, Texas wafer fab.

- Silicon Light Machines also initiated a joint project with Cypress's WAN Segment organization to design a 10-Gigabit-per-second (Gbps) integrated optoelectric (IOE) device for backplane solutions. The new Cypress IOE product will combine our high-speed physical layer (PHY) data transmission competencies with SLM's optical capabilities in a fully integrated, single-chip solution that allows system manufacturers to convert backplane electrical signals to laser-on-fiber transmissions at 10-Gbps.

- Cypress began its first foray into non-silicon wafer manufacturing by launching the construction of a fab in San Jose to make lithium tantalate wafers. The company

believes $LiTaO_3$ is a technology superior to the more well known lithium niobate ($LiNio_3$) technology used for filters in mobile phones and laser modulators in 10-Gbps and 40-Gbps fiber transmission systems. T. J. Rodgers said, “Lithium tantalate is an electro-optic material. That means you can create a light waveguide in it to carry a laser beam that can be modulated with an electric signal. When we acquired SLM, we acquired world-class talent in electro-optics, which may well become a new cornerstone technology for our WAN Division. Our investors should realize there are still significant R&D risks.”

- Cypress commenced operations at its new Georgia design center, created in partnership with the Yamacraw Broadband and Computing Institute at the Georgia Institute of Technology. The new team has begun their work on next-generation optical interfaces and framers. (Framers "packetize" data from incoming Internet links or telephone lines.) Cypress also created a technical advisory board for optics and electronics. It includes Dr. Nan Jokerst, a professor at Georgia Tech specializing in optical systems; Dr. Olav Solgaard, a professor at Stanford specializing in MEMS devices; and Dr. Cynthia Kocialski, a consultant specializing in framers and other logic system chips for the Internet.

- Cypress shipped the first revenue to Cisco Systems and Marconi Communications of its OC-48 physical layer product designed to transmit and receive data at 2.5 Gbps over long-haul fiber networks. T. J. Rodgers said, "The 2.5 Gbps market is where the so-called "physical layer" (PHY) dollars are in 2001. Cypress's 9532 has the best jitter and lowest manufacturing cost of any competing product on the market. Our 9532 beat out the AMCC PHY at Marconi and the Broadcom PHY at

Cisco. We have been shipping PHYs in volume since the mid-80s. We expect to be #1 or #2 in the OC-48 PHY market."

- Cypress sampled its Quad HOTLink II™ (High-speed Optical Transceiver Link) product. QHL II is a four channel, 1.5-Gbps-per-channel, high-speed PHY for backplane applications as well as a variety of other applications including Fibre Channel, asynchronous transfer mode (ATM), and digital video broadcast (DVB).

- Cypress was first to sample a fully integrated, 2.5-Gbps PHY for high-speed InfiniBand^{SM} busses, the new standard bus for storage networks and high-performance servers, invented to replace the ubiquitous PCI bus with a switch fabric solution.

- Cypress introduced a family of very high speed Programmable Serial Interface (PSI™) communications products. PSI, which leverages three Cypress core technology competencies—programmable logic, high-speed PHYs, and multi-port memories—will allow design engineers to integrate custom logic with a PHY to provide a range of flexible, single-chip interface solutions for communications backplanes and line cards. The programmable PHYs offer operating speeds from a single 2.5 Gbps channel to 8 channels of 1.5 Gbps each. T. J. Rodgers said, "The first PSI device has the resources to acquire over 100 channels of voice and/or data, process them, packetize them, and transmit them over a single 2.5 Gbps line. It can also be programmed to receive and disaggregate the data. Xilinx recently announced that its first FPGA with high speed PHYs would be available in Q1 2001. We are sampling PSI this quarter."

- Cypress sampled the 100,000-gate Delta39K100 CPLD, the first in its family of Delta39K™ "CPLDs at FPGA Densities™". With devices ranging from 15,000 to 350,000 usable gates, the family exceeds the density of the largest CPLDs available by 10x with pin-to-pin propagation delays of just 6.5ns. The family also offers more embedded communications memory (Dual-Port and FIFO) than any other PLD.

- Cypress signed a definitive agreement to acquire International Microelectronics Inc., (IMI), a $50-million privately held company with core competency in timing technology solutions for WAN/SAN applications.

- Cypress expanded its position in the WAN/SAN programmable system-clock market with the introduction of the RoboClock® II™. Cypress's RoboClock®, currently sets the standard copied pin-for-pin by competitors, including IDT. "RoboClock® II™" is twice as fast and twice as dense as RoboClock®, while offering the redundant clock and spread spectrum capabilities requested by our teaching customers.

- Cypress introduced the MediaClock™ featuring a voltage controller crystal oscillator (VCXO). MediaClock, whose very precise VCXO is required for set-top box applications, was specially designed for use with the industry standard Broadcom chipset. Cypress is one of the only two sources for this high-volume chipset. MediaClock is also the first Cypress product to use Cypress's new proprietary SONOS (Silicon Oxide Nitride Oxide Silicon) non-volatile memory technology.

- Cypress announced samples of the world's first integrated USB 2.0 controller solution. The USB 2.0 standard pushes USB speeds to 480 Mbps, 40x faster than first-generation USB 1.1 products. USB 2.0 will be a standard in wireless LAN, mass

storage, and broadband Internet connections.

- Cypress achieved overall record revenue in synchronous and NoBL memories during the fourth quarter. NoBL, in particular, enjoyed increased penetration at a number of fast-growing emerging accounts, including Juniper, Redback, Zhone, Emulex and Shasta. Increased sales in these high-bandwidth memories is why Cypress WAN sales grew even in a soft WAN market.

- Cypress provided first samples of its 18-Mbit NoBL family of communications memories, designed on a 0.15-micron process. These communication memories are the densest available from any source.

- Cypress introduced the 9-Mbit dual-port memory, the industry's largest multiport memory.

- Cypress MicroSystems, a subsidiary, introduced a family dubbed Programmable System-on-Chip™ (PsoC™) microcontrollers with programmable logic and programmable analog circuitry—allowing one PsoC device to replace literally dozens of members of our competitors families of micro-controllers. T. J. Rodgers said, "This is Cypress's most exciting new product because it addresses the huge $5-billion 8-bit microcontroller market with the first grand innovation in a decade. Here's the value proposition: Stock one chip; configure its digital and analog programmable circuitry to make your own custom product; let it measure voltage and currents with up to 14 bits of precision—and then re-configure itself into a modem to report its measurements over the Internet. The same chip can also be

the intelligence in a walkie-talkie, a digital voltmeter or temperature sensor, or …"

Wireless Terminal and Wireless Infrastructure (WIT/WIN)

Sales of the WIT/WIN divisions, which represented approximately 38% of Cypress's revenue, grew 3% from the previous quarter despite a significant inventory correction in this market segment. We expect revenue to decline 10-12% in the first quarter due to slower mobile phone sales. Despite this slowdown, Cypress believes that its contractual position with customers will allow the company to gain share in the mobile phone market. Segment highlights:

- Cypress shipped first samples of its 8-Mbit MoBL™ II (More Battery Life™) 0.15-micron SRAMs optimized for micropower products. Cypress also announced an entire family of 2-, 4- and 8-Mbit MoBL II SRAMs manufactured on its proprietary 0.15-micron process, designed to enable dramatically increased unit shipments from existing manufacturing facilities.

- Cypress completed the successful characterization of its Bluetooth radio cell library, which is fabricated in a 0.25-micron, 31-GHz BiCMOS process. Cypress gained the IP for the Bluetooth wireless protocol during the second quarter of 2000 with the acquisition of Alation and RadioCom, companies specializing in baseband DSP processing and radio receivers, respectively.

- Cypress ramped to a record $52 million in bookings of W-CDMA products for W-CDMA base stations.

Computation and Other

Sales of the Computation and Other division represented 19% of Cypress's revenue and declined 7% quarter-on-quarter. The decline was caused by overall softening in the PC market and its effect on the PC clocks and USB businesses. We expect the PC market to continue to decline next quarter, which will result in another 15-17% degradation in this segment's revenue.

Other Developments

- Cypress's Board of Directors authorized the repurchase of up to 10 million shares of the company's stock due to the undervaluation of the stock and current market conditions. The buyback program is currently active.

- Cypress named longtime Nortel Networks executive James R. Long to the Board of Directors. Mr. Long, most recently the CEO of the enterprise solutions division at Nortel, was also appointed to the Board's Audit Committee. Mr. Long is expected to contribute to a deeper understanding of Cypress's core communications end markets.

- Cypress completed the conversion of Fab 1 in San Jose to 8-inch wafers, facilitating the development of 0.12-micron technology with our partner, Mosel Vitelec, Taiwan-based technology leader and innovator in the DRAM and flash memory markets.

Rodgers concluded, "It appears likely that we will be faced with a couple of challenging quarters due to continued softening of demand and poor visibility. Whatever the market conditions, however, we remain committed to our goal of growing at a rate faster than the industry. Our current forecast is for a modest 4%-9% decline in revenues for the first

quarter of 2001. That revenue combined with a tax rate increase to 30%, will lead us to an EBG of $0.58 per share in the first quarter. Analysts have reduced industry growth rate estimates twice—to a 15%-18% year-on-year figure for 2001. If that reduced expectation proves out, we currently expect Cypress to outgrow the industry and set records for revenue and EBG of $1.6 billion and $2.46 per share, respectively.

About Cypress Semiconductor

Cypress Semiconductor is “Driving the Communications Revolution”™ by providing high-performance integrated circuit solutions to fast-growing markets, including data communications, telecommunications, computation, consumer products, and industrial control. With a focus on emerging communications applications, Cypress's product portfolios include high-speed data communications ICs; networking-optimized and micropower static RAMs; high-bandwidth multi-port and FIFO memories; high-density programmable logic devices; timing technology solutions; and controllers for Universal Serial Bus (USB). Cypress is No. 1 in the USB and clock chip markets.

More than two-thirds of Cypress's sales come from fast-growing communications markets and dynamic companies such as Alcatel, Cisco, Ericsson, Lucent, Motorola, Nortel Networks, and 3Com. Cypress’s ability to mix and match its broad portfolio of intellectual property enables targeted, integrated solutions for high-speed systems that feed bandwidth-hungry Internet applications. Cypress aims to become the preferred silicon supplier for Internet switching systems and for every Internet data stream to pass through at least one Cypress IC.

Cypress employs more than 4,400 people worldwide with international headquarters in San Jose, California. Its shares are listed on the New York Stock Exchange under the symbol CY. More information about Cypress is accessible electronically on the company's worldwide Web site at http://www.cypress.com.

Safe Harbor – Forward Looking Statements

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

Factors that may cause such a difference include the continuing inventory correction and demand softening in the markets Cypress generally serves, the drastic decrease in average selling prices which can materially impact Cypress's profitability, market acceptance of the new products Cypress developed for its focused markets, successful closure and effective integration of the businesses and companies Cypress acquired, and other risks detailed from time to time in Cypress's periodic reports with the Securities and Exchange Commission, including but not limited to its report on Form 10-K for the fiscal year ended January 2, 2000 and its reports on Form 10-Q for the fiscal quarter ended October 1, 2000.