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Cypress Q101 Results: Revenue, \$262 Million; Earnings, EBG \$0.25 Per Share

SAN JOSE, California...April 19, 2001 -- Cypress Semiconductor Corporation (NYSE:CY) today announced that revenue for the first quarter 2001 ended April 1, 2001, was \$262.3 million, down 29% from fourth quarter 2000 revenue of \$370.0 million, and relatively flat from year-ago quarter revenue of \$264.2 million. Included in the first quarter 2001 results were previously announced changes in Cypress's business model, which resulted in an incremental one-time revenue deferral of \$25 million. The business model changes included the conversion of a high-volume strategic account to a consignment program (causing a \$4 million deferral) and a change in the European and Asian distribution sales model to increase Cypress's competitiveness in those regions (a \$21 million deferral). For direct comparison, excluding these changes, revenue in the first quarter was \$287.3 million, a 22% decline from last quarter and a 9% increase from the year-ago quarter.

Net income for the first quarter 2001 excluding goodwill (acquisition-related costs and non-recurring items) was \$32.7 million, resulting in diluted earnings before goodwill (EBG) of \$0.25 per share, compared with fourth quarter 2000 EBG of \$0.74 per share and the year-ago quarter EBG of \$0.40 per share. Lower earnings resulted from both lower sales and an income tax rate increase from 22% in the last quarter of 2000 to 30% in the first quarter of 2001.

Cypress CEO T.J. Rodgers said, "The first quarter of 2001 was a tough quarter. Continued inventory reduction efforts by most of our customers exacerbated a

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fundamental slowdown in end demand in practically all the markets we serve. This recession is like the one in 1996, but the revenue drop is sharper, due to a severe unit volume decline, mitigated by a more modest average selling price (ASP) decline. During the quarter, large cancellations in the cell phone market almost completely offset bookings in other market segments, producing very low net bookings for the quarter. Consequently, we are forecasting another decline of 20-24% in revenue to approximately \$200-210 million in the second quarter, but our goal is to continue to make money.”

Market Segments

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

Sales of the WAN/SAN divisions declined 13% from the prior quarter due to cancellations and order push-outs, particularly from our strategic accounts. WAN/SAN represented 54% of the company's revenue in the quarter and posted gross margin of 53%, down from 61% in the prior quarter. We expect this WAN/SAN market slowdown to continue in the second quarter, causing a sequential revenue decline of approximately 22% in this segment. WAN/SAN segment highlights for the quarter include:

- Silicon Light Machines (SLM), acquired by Cypress last year, began work on a highly integrated, multichannel optical monitoring and attenuation system, designed to process in parallel all 100-plus channels used on one fiber in advanced Dense Wave Division Multiplexed (DWDM) optical networking systems. This new product will be manufactured using Silicon Light Machines' Micro-Electromechanical Systems (MEMS) technology currently being manufactured by Cypress.
- Cypress completed the acquisition of International Microelectronics Inc., (IMI), a \$50-million privately held company with core competency in timing technology solutions for WAN/SAN applications. IMI has been particularly successful in clocks for applications in communications, cable and DSL modems; office automation; digital cameras, DVDs and video games. The acquisition provides Cypress with the industry's broadest portfolio of zero-delay buffers (ZDBs distribute a single clock signal into as many as eight copies with nearly zero delay).

- Cypress introduced its packet over SONET integrated circuit (POSIC), a 14-million-transistor OC-48 framer designed to handle data at 2.5 Gbps. CEO T.J. Rodgers said: "There is intense pressure on networks to expand capacity and support broadband—video, voice and data—transmissions, particularly on the Internet. Although having wider pipes is imperative, dynamic service provisioning—being able to instantly allocate bandwidth to guarantee quality of service (QoS)—is critical. POSIC is the first intelligent, programmable OC-48 framer. Operating at 2.5-Gbps, POSIC uses a technique known as virtual concatenation to allocate within nanoseconds up to 16 channels of voice and data. Such instantaneous allocation compares with the days, weeks or months required by telecommunications companies to provide customers with additional high-speed lines. Virtual concatenation is a new IEEE standard, and POSIC is the first chip to support it."
- Cypress announced additional design wins at both Cisco Systems and Marconi Communications for its OC-48 transceiver, which transmits and receives data at 2.5 Gbps over long-haul fiber networks. We believe our 9532 is superior to competing AMCC and Broadcom products in the critical areas of package and die size, input sensitivity to tiny signals and power consumption.
- Nortel Networks acknowledged Cypress as a supplier in good standing with its "Recognition of Excellence" award. The award cites Cypress's many years of service to Nortel with innovative products and solid customer service. The award also underscores Cypress's recent success aligning its product roadmap to meet Nortel's strategic requirements.
- Cypress sampled its second Programmable Serial Interface (PSI™) product. The PSI5G100 is a dual-channel 1.5 Gbps to 2.5-Gbps-per channel physical layer (PHY) serial link, integrated with 100k gates of programmable logic, 240 Kbits of communications memory and phase-locked loops. The PSI family targets the backplane connection problem in systems which span a broad range of market segments, including SONET and InfiniBand™ systems. Cypress is a leader in this new field of programmable PHYs.

- Cypress opened a design center in Phoenix, Arizona to be the company's center of excellence for integrated optoelectronics (IOE). The center's first task will be the development of a 10-Gigabit-per-second (Gbps) IOE device for backplane solutions, which will integrate the physical layer (PHY) technology from recently acquired HiBand Semiconductors with lasers and photodetectors to transmit and receive data over fiber at very high speeds inside of our customers' systems.
- Cypress's Atlanta design center, launched in cooperation with Georgia Tech's Yamacraw broadband initiative, now has a new physical plant complete with optoelectronic test and characterization equipment. Our Atlanta design center will also work on our IOE initiative.
- Cypress will complete this month the construction of a 3,000-square-foot lithium tantalate (LiTaO₃) fab in San Jose. The new facility represents Cypress's first foray into non-silicon wafer manufacturing. The company believes that LiTaO₃ technology will provide significant advantages in optoelectronic devices.
- Cypress announced first revenue on the 100,000-gate Delta39K100 CPLD, the first in its family of Delta39K™ "CPLDs at FPGA Densities™". Based on a 0.18-micron process, this family ranges from 15,000 to 350,000 usable gates and provides five times the amount of embedded RAM of any competitive FPGA with similar logic capacity.
- Cypress's Q4 2000 partnership with intellectual property (IP) provider Eureka Technology yielded two new IP cores for the Delta39K™ family, the EP520 SDRAM controller core and EC125 32-bit PCI Target.
- In partnership with Mentor Graphics, Cypress also announced forward error correction (FEC) cores, such as Viterbi and Reed Solomon. FEC eliminates/corrects transmission bit errors in high-speed communications systems.
- Cypress began to ship in volume a variation of its industry-leading RoboClock® programmable-skew clock buffer. The new device, the 200 MHz RoboClock 9973 buffer, is pin-compatible with the popular Motorola MPC973 clock buffer.

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- Cypress expanded its USB 2.0 product line with the introduction of the EZ-USB® SX2™ intelligent serial interface engine (SIE), which provides a 480-Mbps USB 2.0 connection to peripherals already containing a microcontroller to drive the SIE. This product will allow for the use of the USB 2.0 standard outside of the PC space.
- Cypress sampled the first of its family of Quad Data Rate™ (QDR™) SRAMs. QDR is a third-generation synchronous memory that is capable of delivering data at speeds up to 333 MHz. It is specifically optimized for high-performance networking and telecommunications systems.
- Cypress realized first revenue on its 1-Mbit QuadPort™ RAM family of devices. QuadPort is a bandwidth-optimized synchronous four-port memory-based solution for WAN, SAN and WIN switching fabrics. Developed in conjunction with EMC, the world's leading developer of information storage infrastructure systems, the QuadPort's four independent ports deliver complex queuing to dramatically improve quality of service in high-performance communications applications. During the quarter, Cypress also gained two Quad-Port design wins in cellular basestations. The basestation market is a new area of penetration for Quad-Port RAMs.
- Cypress MicroSystems, a subsidiary of Cypress Semiconductor, sampled and announced more than 400 design registrations for its Programmable System-on-Chip™ (PSoC™) microcontroller family. Ralph Schmitt, Cypress's VP of Marketing and Sales said, "The new PSoC family is the most successful new-product debut in Cypress's history." PSoC controllers offer both programmable logic and programmable analog circuitry, which enable one PSoC device to replace dozens of components in the \$5-billion, 8-bit microcontroller market.

Wireless Terminal and Wireless Infrastructure (WIT/WIN)

Sales of the WIT/WIN divisions ended down 51% with heavy cancellations and order pushouts, mostly from the wireless/cellular handset customers. Existing contracts with certain strategic accounts helped to increase market share and hold pricing in those accounts, but the decline in demand was far too great to offset these gains. The WIT/WIN segment declined to 26% of the company's total sales but sustained gross

margin of 58%, down only slightly from the 60% recorded last quarter. Although the overall cellular handset market is expected to be at 450 million units in fiscal year 2001, we believe that inventory correction will continue to negatively impact this segment in the near term, with a potential 30% decline in the second quarter. We don't expect a notable revenue increase in this segment until the fourth quarter of 2001.

Computation and Other

Sales of the Computation and Other division were down 23% from last quarter and represented 20% of total Cypress's revenue with gross margin of 42%, down from 53% in the prior quarter. The computation segment's problems appear to be the least related to inventory corrections, and sales should start to firm up sooner than the other segments. We project a 10% decline in computation revenues in the second quarter and expect growth to resume in the third quarter of 2001, traditionally the strongest quarter for this market. Segment highlights:

- Cypress signed an exclusive four-year agreement with Agilent Technologies to develop low-cost USB microcontrollers for Agilent's next generation of optical mice. Cypress will develop microcontrollers with USB and PS/2 interfaces that will work exclusively with Agilent optical mouse sensors. Agilent, in turn, will develop sensors designed to work only with Cypress microcontrollers. The two companies will jointly promote the combined solutions but will independently manufacture and sell the products for the OEM and retail markets. Together, the two companies will benefit from cost-efficiency and product customization.
- Working in conjunction with Carry Computer Engineering Co. of Taipei, Taiwan, Cypress introduced Carry's USB Port Flash Card Reader at last month's CeBIT trade show. The system allows users to transfer data between flash memory cards and personal computers.
- Cypress initiated volume production of a clock to support next-generation Pentium IV mainstream desktop and notebook PCs. The W320-03 achieves best-in-class jitter, the most important clock parameter.

- Cypress announced that it has shipped more than 20 million Direct Rambus Clock Generators (DRCGs) for PC and video game applications. Cypress was the first solutions provider to support 400 MHz DRCG and is a market leader in 533 MHz and Dual DRCG products.

Other Developments

- Cypress's board of directors increased the current stock buyback program by five million shares to a total of 15 million shares, of which approximately 7.5 million shares had been repurchased by the end of the first quarter.
- In response to the dramatic change in demand, Cypress cut its planned capital expenditure from \$350 million to \$135 million and cut its planned hiring by 80% from approximately 600 openings to 120 openings.

Rodgers concluded, "Semiconductor industry revenue is now projected to decline 15% from 2000 revenue, and it appears that the communication segment, on which we have focused a significant portion of our business, is getting hurt the most. However, we still believe that the wide area and storage networks, wireless terminal and wireless infrastructure end markets are high-growth markets long-term, and we will continue to focus our new product activities in those markets. Given the poor bookings we experienced during the first quarter, and the continued lack of near-term visibility, we expect a sequentially down second quarter with revenue in the \$200-210 million range and single-digit earnings per share before goodwill. It remains our goal to traverse this tough year stably and profitably."

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).

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 4,500 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 December 31, 2000.

Grating Light Valve, GLV, NoBL, No Bus Latency, Quad HOTLink II, PSI, Delta39K, CPLDs at FPGA Densities, QuadPort, Hybrid Data Port, HDP, RoboClock II, MediaClock, RAM7, FX2, SX2, MoBL, More Battery Life, and Driving the Communications Revolution are trademarks of Cypress Semiconductor. EZ-USB and RoboClock are registered trademarks of Cypress Semiconductor. PSoC is a trademark of Cypress MicroSystems. InfiniBand is a trademark of the InfiniBand Trade Association. Inventra is a trademark of Mentor Graphics.

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