

CYPRESS SEMICONDUCTOR CORP /DE/

Form DEFA14A

March 24, 2004

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**Presentation To
Stockholders Regarding
2004 Proxy**

**MARCH 22, 2004
MANNY HERNANDEZ**

AGENDA

**PROPOSED 1994 STOCK OPTION PLAN
(AS AMENDED)**

BRIEF MARKET AND BUSINESS UPDATE

** Non-historical information are Forward Looking Statements **

2

AGENDA

**PROPOSED 1994 STOCK OPTION PLAN
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3

2004 Stockholders Meeting

RESOLUTIONS FOR THE MEETING

ELECTION OF DIRECTORS

(S. ALBRECHT, E. BENHAMOU, F. BIALEK, J. LEWIS, J. LONG, TJ RODGERS, A. SHUGART)

1994 STOCK OPTION PLAN (AS AMENDED)

RATIFICATION OF PRICEWATERHOUSECOOPERS AS INDEPENDENT AUDITORS FOR 2004.

4

1994 Stock Option Plan

BACKGROUND

1994 STOCK OPTION PLAN

**CREATED APRIL 1994, EXPIRING APR 22, 2004
STOCKHOLDER-APPROVED
GRANT OPTIONS TO EMPLOYEES, OFFICERS AND DIRECTORS
4.5% EVERGREEN FEATURE
APPROX. 5 MILLION SHARES AS OF MARCH 04**

1999 STOCK OPTION PLAN

**CREATED IN 1999 PRIMARILY FOR ACQUISITIONS
NON-STOCKHOLDER-APPROVED
FOR NON-OFFICERS & NON-DIRECTORS ONLY
CYPRESS ACQUIRED 14 COMPANIES IN 99-02**

APPROX. 23 MILLION SHARES AS OF MARCH 04

5

1994 Stock Option Plan

PROPOSAL - SUMMARY

1994 STOCK OPTION PLAN AS AMENDED

EXTEND PLAN TO 2014
 GIVE UP 4.5% EVERGREEN FEATURE
 INCREASE 1994 PLAN BY 15 MILLION SHARES
 CANCEL 20 MILLION SHARES FROM THE 1999 STOCK PLAN
 NO RE-PRICING OR EXCHANGE PROGRAMS WITHOUT STOCKHOLDER
 APPROVAL
 ALL FUTURE FUNDING OF THE AMENDED PLAN SUBJECT TO STOCKHOLDER
 APPROVAL
 ALLOW FOR GRANT OF PERFORMANCE-BASED RESTRICTED STOCK

6

Burn Rate

Year-end Burn Rate History

BURN RATE IS IMPROVING WITH
 <4% TARGET IN THE NEXT 3-5 YRS

| | 2001 | 2002 | 2003 | Three-Year Average |
|-----------------|-------|------|------|-----------------------|
| Gross Burn Rate | 17.4% | 7.9% | 8.8% | 11.4% |
| Net Burn Rate | 12.3% | 5.7% | 4.0% | 7.3% |

7

Overhang Percent

| | A | B | C | B+C | (B+C)/A | B/A | (B+C)/(A+B+C) |
|--------------------|---------------------------------|------------------------|-----------------------------------|--|---------------------------|--------------------|--------------------|
| Shares in Millions | Common Shares Outstanding | Options Outstanding | Options Available for Grant | Options Available Plus Outstanding | Fully Diluted Overhang | Issued Overhang | ISS Calculation |
| As of Dec 28, 2003 | 120.5 | 43.74 | 23.03 | 66.77 | 55.4% | 36.3% | 35.7% |
| As of Mar 1, 2004 | 123.0 | 44.13 | 27.76 | 71.89 | 58.4% | 35.9% | 36.9% |

| | | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Adj for Convertible & BuyBack | 214.4 | 44.13 | 27.76 | 71.89 | 42.5% | 26.1% | 29.8% |
| Adj for acquisitions | 214.4 | 40.23 | 27.76 | 67.99 | 31.7% | 18.8% | 24.1% |
| ISSUED OVERHANG TARGET <20% IN NEXT 2-3 YEARS | | | | | | | |

8

**CY 1-Yr Share Price Trend
Dec 2002 - 2003**

**CYPRESS HAS OUTPERFORMED
BROAD MARKET INDEX LAST YEAR**

9

**CY 5-Yr Share Price Trend
Dec 1998 - 2003**

**CYPRESS HAS OUTPERFORMED
BROAD MARKET INDEX FOR 5 YEARS**

10

Benefits of 94 Plan Approval

THE 1994 AMENDED PLAN'S APPROVAL...

**IS FUNDAMENTAL TO OUR COMPENSATION POLICY
IS CRUCIAL TO OUR ABILITY TO MOTIVATE EMPLOYEES
IS ESSENTIAL TO COMPETITIVE RECRUITING OF KEY TALENT AND
RETENTION OF SKILLED WORKFORCE
ENCOURAGES AND REWARDS EMPLOYEE PERFORMANCE
HELPS ALIGN EMPLOYEE INTEREST WITH THOSE OF OUR
STOCKHOLDERS
PROVIDES CONTINUITY OF OUR STOCK PROGRAMS INCLUDING GRANTS
TO OFFICERS & DIRECTORS**

11

AGENDA

PROPOSED 1994 STOCK OPTION PLAN
(AS AMENDED)

BRIEF MARKET AND BUSINESS UPDATE

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12

Market View

LEADING INDICATORS ARE UP

INDUSTRY UTILIZATION AT 90+ %

CUSTOMER INVENTORY STABLE

SEMICONDUCTOR INDUSTRY IS IN RECOVERY PHASE
INITIALLY DRIVEN BY PC AND CONSUMER
WIRELINE STARTING TO GROW
SIA FCST FY04 +25%

13

Pro Forma Financials

| | Q103 | Q203 | Q303 | Q403 | FY03 | |
|-------------------|----------------|-----------------|----------------|----------------|----------------|-----------------------|
| SALES | +3.7% 181.0 | +12.2% 203.1 | +6.6% 216.6 | +9.0% 236.0 | +8.0% 836.8 | |
| BOOKINGS | 189.1 | 212.1 | 229.3 | 264.6 | | |
| GM% | 43.5% | 47.6% | 48.6% | 51.2% | 48.0% | +10.1% vs Q402 |
| R&D% | 32.3% | 29.7% | 28.2% | 24.9% | 28.5% | -10.1% vs Q402 |
| SG&A % | 17.1% | 15.5% | 15.2% | 14.5% | 15.5% | -3.7% vs Q402 |
| P_EPS | \$ (0.099) | \$ 0.026 | \$ 0.080 | \$ 0.159 | \$ 0.188 | vs -\$0.12 in Q402 |
| | Q103 | Q203 | Q303 | Q403 | | |
| | -\$ 0.27 | -\$ 0.10 | \$ 0.12 | \$ 0.15 | | |

| | Q103 | | Q203 | | Q303 | | Q403 | | Q104 | | Q1Rev | |
|----------|------------|----|-------|----|-------|----|-------|----|------------------|----|--------------------|--|
| | | | | | | | | | | | | |
| SALES | 181.0 | | 203.1 | | 216.6 | | 236.0 | | +3% Q-Q 243.0 | | +5.9% Q-Q 250.0 | |
| BOOKINGS | 189.1 | | 212.1 | | 229.3 | | 264.6 | | | | | |
| GM% | 43.5% | | 47.6% | | 48.6% | | 51.2% | | | | | |
| R&D% | 32.3% | | 29.7% | | 28.2% | | 24.9% | | | | | |
| SG&A% | 17.1% | | 15.5% | | 15.2% | | 14.5% | | | | | |
| P EPS | \$ (0.099) | \$ | 0.026 | \$ | 0.080 | \$ | 0.159 | \$ | 0.170 | \$ | 0.180 | |

| | Q103 | | Q203 | | Q303 | | Q403 | | Q104 | | Q1REV | |
|-------------------|------|------|------|------|------|------|------|------|------|------|-------|------|
| EQUIV GAAP | | | | | | | | | | | | |
| EPS: | -\$ | 0.27 | -\$ | 0.10 | \$ | 0.12 | \$ | 0.15 | \$ | 0.10 | \$ | 0.10 |
| GM: | | 43% | | 48% | | 48% | | 57% | | | | |
| R&D: | | 32% | | 30% | | 29% | | 25% | | | | |
| SGA: | | 17% | | 16% | | 15% | | 14% | | | | |

Condensed Consolidated Balance Sheet

| | | |
|--|----|-----------|
| Cash, cash equivalents and investments | \$ | 379,867 |
| Accounts Receivable, net | | 113,568 |
| Inventories | | 72,085 |
| Property and equipment, net | | 442,887 |
| Goodwill and other intangibles assets | | 375,483 |
| Other assets | | 183,608 |
| Total Assets | \$ | 1,567,498 |

7

| | | | |
|---|-----------|------------------|-----------------|
| Accounts payable and accrued liabilities | \$ | 155,693 | CALL-SPREAD |
| Deferred income on sales to distributors | | 20,104 | MATURES JUL04. |
| Convertible subordinated notes | | 668,652 | UP TO 12.4M |
| Income tax liabilities | | 101,254 | SHARES RETIRED. |
| | | | (CURRENT VALUE |
| | | | \$180M) |
| Other liabilities | | 52,607 | |
| Total Liabilities | | 998,310 | |
| Stockholders' equity | | 569,188 | |
| Total Liabilities and stockholders' equity | \$ | 1,567,498 | |

16

CYPRESS FOCUS

DIVISIONS

| DATA COMM. | PERSONAL COMM. | MEMORY PRODUCTS | TIMING TECH. | SEGMENTS |
|---------------|-------------------|--------------------|-----------------|--------------------|
| PHYS | | SRAMS | COM CLOCK | WAN SEGMENT |
| FRAMER | USB | SYNC | PC CLOCK | WIT/WIN SEGMENT |
| SEARCH ENG | WIRELESS | ASYN | ZDB | COMP/CE SEGMENT |
| DP/FIFO | NEURON | MoBL | CLOCK SKEW | SUBS SEGMENT |
| CPLD | | PROM | | |

PRODUCTS VERTICALLY ALIGNED WITH DIVISIONS

COMPETENCIES HORIZONTALLY ALIGNED WITH MARKETS

17

SEGMENT GROWTH DRIVERS

| WIRELESS | WIRELINE | COMPUTATION CONSUMER | SUBS |
|---|---|--|--|
| Q403: \$68.3M Rev mix: 29% Q104: Up Modest | Q403: \$81.6 Rev mix: 35% Q104: Growth | Q403: \$76.6M Rev mix: 32% Q104: Seasonal Flat | Q403: \$9.6M Rev mix: 4% Q104: UP |
| HANDSETS CAMERA PHONE HIGHER DENSITY 1T PSRAM LPSDRAM | INFRASTRUCTURE NSE DESIGNS SHARE GAINS: - TCAMS/NSEs - MULTI-PORT | PC REPLACEMENT USB 2.0 ADOPTION WIRELESS USB CONSUMER PRDS - DSC, GAMING | PSoC DESIGNS MAGNETIC RAMS SOLAR CELLS |

2.5/3G BSTATIONS

STB, JDIMMs

18

MARKET POSITION

| PRODUCT | POSITION | COMPETITOR | STRATEGY |
|-------------|----------|------------|---------------|
| SRAMS | 2 | SAMSUNG | 1T / MRAM |
| USB | 1 | PHILIPS | ARCHITECTURE |
| CLOCKS | 2 | ICST | PROGRAMMABLE |
| MULTI PORTS | 2 | IDT | DENSITY / TTM |
| CAMS | 2 | IDT | PORTFOLIO |

19

CONCLUSION

OUTLOOK IS GOOD FOR 2004.

WE WILL GROW AND IMPROVE PROFITS IN Q104.

POTENTIAL FOR PROFIT LEVERAGE WITH TIGHT SUPPLY AND ASP IMPROVEMENT.

CYPRESS S MARKET SEGMENTS ARE GROWING.

#1 OR #2 POSITION IMPROVING WITH SHARE GAIN.

OPPORTUNITY TO FURTHER STRENGTHEN OUR BALANCE SHEET WITH SOFTCALL & CALL SPREAD.

WE REQUEST YOUR FAVORABLE SUPPORT
OF OUR 1994 STOCK OPTION PLAN PROPOSAL

20

THANK YOU

Q&A

