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For Immediate Release

**Cypress President T.J. Rodgers Communicates to Shareholders and Employees
Regarding Cypress Share Price**

SAN JOSE, Calif., October 8, 2002 – Cypress Semiconductor Corporation (NYSE: CY) President and CEO T. J. Rodgers today released a communication to Cypress shareholders and employees providing details about the recent fluctuations in Cypress' share price. A copy of that communication follows.

A SPECIAL LETTER TO CYPRESS SHAREHOLDERS AND EMPLOYEES

To Our Shareholders:

Last Friday, Cypress shares dropped to an unprecedented \$4 per share. As you might imagine we had numerous phone calls and emails. I have decided that this unprecedented event warrants a special shareholder letter. I have enclosed two emails I received along with my response to them. The first email is from an investor whose retirement fund contains Cypress stock.

Subject: Concerned Shareholder

Dear Mr. Rodgers,

I own 10,000 shares of Cypress in my retirement account. The shares were purchased at \$11/share. Having the vast majority of my IRA invested in Cypress, I'm naturally concerned with the huge drop in the stock price. What is your level of confidence that the shares will recover in value over the next few years? Does Cypress have the financial strength to survive until the economy recovers?

You have always struck me as an honest business leader. In fact that is one of the main reasons why I invested in Cypress. Your candor would be greatly appreciated.

Many thanks for your response,
Shelley S

Dear Shelley:

Thank you for your dignified message. Your worries are shared by most Cypress shareholders and employees. Here's an email I received from an employee on the same day as yours.

-MORE-

Subject: Why?

TJ,

Sorry, I never thought that I would actually email you, but what does the street know that we don't? The stock price is \$4.36 and going down. I just want to understand.

Thanks,
Sherif H
New England Design Center

What follows are my answers to the questions posed in these emails, including the following:

1. What has caused Cypress's share price to drop to the \$4 range?
2. What's the near-term outlook for Cypress?
3. Does Cypress have the "staying power" to make it to the next upturn?
4. Will Cypress shares recover in value?

Currently, Cypress's performance is good, much better than it was during the downturns of 1991-1992 and 1996-1998. The collapse of shipments to our customers in the communications industry cut Cypress's revenue in half from a peak of \$370 million in the fourth quarter of 2000 to \$180 million in the third quarter of 2001, causing our first quarterly loss in the current downturn. Since then, our finances have improved every quarter for a year, as underscored by the following table. We are now near breakeven, as shown below:

<u>QUARTER</u>	<u>REVENUE (M)</u>	<u>PROFORMA EPS</u>	<u>CLOSING</u>	
			<u>SHARE PRICE</u>	
			<u>HIGH</u>	<u>LOW</u>
Q3 2000	\$370	\$0.74	\$56	\$33
Q3 2001	\$180	\$(0.76)	\$29	\$14
Q4 2001	\$191	\$(0.11)	\$26	\$14
Q1 2002	\$193	\$(0.10)	\$25	\$18
Q2 2002	\$202	\$(0.05)	\$24	\$14
Q3 2002	\$205	\$(0.03)	\$15	\$6
Q4 2002 to date			\$7	\$4

Thus, the current low share price exists at a time when Cypress has just posted its best results in a year. Obviously, factors other than just quarterly performance must be responsible for the recent share price decline.

One factor was our September 6, 2002 "pre-announcement" for the third quarter in which we said we would *improve less* in third-quarter revenue and earnings than we had previously expected. (Our first forecast was for revenue of \$208-\$213 million and proforma breakeven earnings. The actual results were \$205 million in revenue with a \$0.03 loss, up from \$202 million and a \$0.05 loss in the prior quarter.) Obviously, this pre-announcement alone cannot rationally explain the recent share price decline.

Before I discuss my views on the causes of our share price decline, let me first quantify what "high" and "low" prices are for Cypress shares. To address some of the same share-price concerns expressed by shareholders during the 1996 semiconductor downturn, I wrote a paper entitled "Thinking about Cypress Stock," which was distributed to all shareholders and is still available on our web site (<http://www.cypress.com/pub/tjstock.pdf>) or in printed version by sending a request to <mailto:pxh@cypress.com>. In that paper, I pointed out the obvious: that making a gain on Cypress stock required one to "buy low and sell high." The difficult part is to know when Cypress stock is priced "low" and when it is priced "high."

My analysis used a well-known metric, the price-sales (PS) ratio, to value Cypress stock. The PS ratio is simply the total value of all outstanding Cypress shares (our market capitalization), divided by our annual sales.

$$PS = \frac{\text{SHARE PRICE} \times \text{TOTAL SHARES}}{\text{YEARLY SALES}} = \frac{\text{TODAY'S PRICE} \times 124\text{M SHARES}}{4 \times \text{LAST QUARTER'S SALES}}$$

The paper analyzed Cypress's PS ratio for every trading day from October 1987 to January 1996. The price of Cypress stock displayed three important valuation points during that nine-year period. (I express "stock price" here as a PS ratio because we have grown by a factor of 10, making a revenue-indexed ratio necessary). When Cypress was most highly favored by investors over the 1987-1996 period, our shares traded with a PS ratio of 3.46 or higher. When Cypress was performing poorly, and/or was in disfavor with investors, our shares traded at a PS ratio of 1.43 or lower. The average PS ratio over the decade was 2.23. At a share price of \$4.00, our PS ratio is as follows:

$$PS \text{ (@\$4 / SHARE)} = \frac{\$4.00/\text{SHARE} \times 124 \text{ MILLION SHARES}}{4 \times \$205\text{M (Q3 REVENUE)}} = 0.60$$

That's an all-time, record-low PS ratio. There must be other factors than our current near-break-even performance causing that result.

One concern hanging over Cypress and the entire semiconductor industry is the possibility of another round of softening in semiconductor sales. I said earlier that our results for Q3 would be up, but not by as much as we thought just 90 days ago. The new problem in the semiconductor market is that, in addition to the well-publicized collapse of the communications market, the personal computer (PC) market is experiencing anemic, but not catastrophic, year-end business—traditionally when PC sales are strongest.

Investors are concerned that the semiconductor market could stay sluggish for a while. In that case, Cypress's revenue could settle in the range of \$190-\$210 million per quarter, with modest quarterly proforma losses in the \$(0.08)-\$0.00 range—if we did not make any changes.

We have decided that we will size Cypress to be profitable in the near term. If, after polling our customers once more on their probable demand over the next six months, we can expect modest revenue growth to our current \$210 million break-even point, we will simply move forward without changes. If we see our revenue becoming stalled in the \$190-\$205 million range, we will cut costs to achieve breakeven at the lower revenue level.

So far, I have made four points: (1) Cypress's recent performance during this downturn has been good, with quarterly improvements in revenue and profit each quarter for the last year. (2) A potential slowdown in the semiconductor market may stall that progress. (3) Cypress will cut costs if needed to achieve profitability in the near term. (4) Our shares are trading at 0.6 times sales, a record low number not in line with our current performance.

You have asked whether or not we have the "financial strength to survive until the economy recovers." The answer is an emphatic, "Yes." Other investors have shared that concern with us, and I believe it is another factor pushing our share price down. Here again, it is instructive to look at the facts. Cypress has approximately \$240 million in cash. That's \$140 million more than we had in the bank at the bottom of the 1992 or 1996 downturns. Furthermore, our operations are cash-flow positive—equipment we have already bought and paid for is producing more than \$10 million per quarter in cash. Our cash balance goes down only when we spend more than \$10 million per quarter on acquisitions or on new wafer fabrication equipment. Right now, we are carefully managing spending on both, and we expect to keep our cash balance at or above the \$200 million mark. The only time we will want to spend money on wafer fabrication equipment will be in the case of an upturn in demand, exactly when the financial constraints will be lifted.

Another concern of some investors about Cypress's financial health is the fact that we have two outstanding "convertible debentures," essentially \$469 million in debt convertible to stock. This debt is

very favorably priced (we pay only 3.9% interest, compared with the current high yield bond rate of 10%-12%), and it is not due until 2005. If we had raised that \$469 million by selling shares at \$10, the dilutive impact on Cypress shareholders would have been 47 million shares, added onto the current 124 million shares outstanding. At this time, we do not foresee any problem in retiring these convertibles.

Regarding the issue of the extent and timeframe of the recovery in value of our shares, I am legally restricted from answering, and really cannot give an accurate reply, anyway. But I will provide some facts about Cypress share-price values. First, attached is an updated graph of our PS ratio (<http://www.cypress.com/pub/psratio.pdf>), which covers the entire period from our initial public offering in May 1986 through last Friday—4,201 trading days, 16 trading years. I have annotated that graph with some of the events that affected share price.

Over our 16-year history as a public company, Cypress's current share price, given the third quarter's \$205 million in revenue, would have been valued as follows:

HIGH (90th percentile):	PS = 4.11,	SHARE PRICE=\$27.27
MEDIUM (50th percentile):	PS = 2.32,	SHARE PRICE=\$15.40
LOW (10th percentile):	PS = 1.53,	SHARE PRICE=\$10.17

Our current share price is therefore low, even when compared to our worst performance.

Cypress management uses the PS metric to make decisions. With the approval of Cypress's directors, we repurchased \$334 million of our shares at an average price of \$19.10 during 2000-2002. That program ended when we reached our pre-agreed safe cash level of \$200 million. I purchased \$2,451,870 worth of shares partly for my own retirement fund, some from the open market during 2001 and 2002 at prices ranging from \$17.10 to \$19.91. Over two thousand Cypress employees have purchased \$100.6 million worth of Cypress shares through our shareholder-approved Stock Purchase Assistance Program at an average price of \$19.73. (Cypress Directors and I were ineligible for that program.) These are meaningful statements about the value of Cypress stock made by Cypress employees. Obviously, with a better crystal ball, I would have waited until now to make my \$2.5 million share purchase—my own record says that I didn't predict market prices as well as you did.

The final problem that I believe is currently crippling the stock market in general is a lack of investor confidence—even outright fear—promoting irrational decision making. (Don't misinterpret my point. Cypress should simply be one of the minority of semiconductor companies that are still profitable. That's our problem, not the market's.) But I still don't believe a great company like Sun Microsystems should be valued at \$2.42 per share. I don't believe Lucent and Nortel are worth less than \$1.00 per share. And, it does not make sense for AMCC's market value to be less than the cash it has in the bank!

I have always believed in free markets and their demonstrated superior accuracy in determining value. But in the short term, fears or fads can produce irrational results. Gold prices during the Carter administration shot up to \$900 per ounce, despite the fact that gold could be mined for less than \$300 per ounce, its current price. Investors in that gold rush lost money due to irrational decisions. As a technologist in Silicon Valley who knows that any group of computer-savvy college students can create a web site, I was appalled with the high valuations awarded to several companies whose only business was selling pet supplies over the Internet. Again, the market corrected itself with the dot.com collapse. I believe it will correct itself again. I believe investors earning 1-1/2% interest on their bank accounts will see the opportunities in technology stocks.

In my opinion, the Enron scandal is also a big factor behind today's stock market problems. If investors can't trust that their money will be well managed and that they will be told the truth, they would be foolish not to take their money out of the market. It will take quarters, if not years, for investors to be reminded that most companies are honestly and competently managed. Enron and the other companies involved in scandals represent fewer than 10 of the approximately 17,500 publicly traded companies. That's a 0.06% failure rate. Any corporate scandal rate is unacceptable, but the corporate failure rate is more than 10 times better than the record for: (1) the percentage of members of Congress who have bankrupted companies, or

(2) who can't get credit cards due to poor credit ratings, or (3) who were expelled for committing a felony, and (4) the percent of U.S. presidents impeached while in office.

Our political leaders should have seized their chance to lead and calm the market by pointing out that the Enron perpetrators were fired, broke and probably going to jail—and that the vast majority of America's companies are run right. Instead, they magnified the fear generated by the Enron debacle for political advantage. Shame on them, but Enron is a problem, not an excuse.

Cypress Semiconductor spent approximately \$210 million last quarter to make 141 million chips it sold for only \$205 million—that's my problem, not an Enron issue. All I can do is be honest, run Cypress right, and bring it back to profitability—which is my commitment to you and our other shareholders.

T.J. Rodgers

P.S. Please note that we sold 141 million chips last quarter. That's close to our all-time record high of 157 million units sold in the third-quarter of the 2000 boom. There is plenty of demand for our products. It's the prices that make it difficult to make a profit. Our industry operates on the math of "Moore's Law." We consistently cut our costs at the rate of about 30% per year. In every semiconductor recession during the 45-year history of our industry, costs have eventually caught up to ever-lowering prices to end the recession.

SAFE HARBOR

This article is not intended to make any projection or forecast with respect to the semiconductor industry, Cypress's business or financial results or the value or trading prices of Cypress Common Stock. However, to the extent this article and its hypothesis contain forward-looking information, readers should be advised that actual results and outcomes may differ materially. There are numerous factors that will and can affect Cypress's business and the trading prices of its Common Stock, such as continued market demand for its products, competitive conditions, the general conditions which can affect trading in the U.S. capital markets, Cypress's overall financial performance, as well as many of the factors which are cited in the body of the article. This article is intended to set forth a hypothesis and an analysis and should be utilized, if at all, only in that light.

About Cypress

Cypress Semiconductor Corporation (NYSE: CY) is Connecting From Last Mile to First Mile™ with high-performance solutions for personal, network access, enterprise, metro switch, and core communications-system applications. Cypress Connects™ using wireless, wireline, digital, and optical transmission standards, including Bluetooth, USB, Fibre Channel, SONET/SDH, Gigabit Ethernet, and DWDM. Leveraging its process and system-level expertise, Cypress makes industry-leading physical layer devices, framers, and network search engines, along with a broad portfolio of high-bandwidth memories, timing technology solutions, and programmable microcontrollers. More information about Cypress is accessible online at www.cypress.com.

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