
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of The Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported): **October 23, 2018**

CYPRESS SEMICONDUCTOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-10079
(Commission
File Number)

94-2885898
(I.R.S. Employer
Identification No.)

198 Champion Court
San Jose, California 95134
(Address of principal executive offices and zip code)

(408) 943-2600
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 1.01 Entry Into a Material Definitive Agreement.

On October 23, 2018, Cypress Semiconductor Corporation (the “**Company**”) entered into a joint venture agreement (the “**Joint Venture Agreement**”) with SK hynix system ic Inc., a company organized under the laws of the Republic of Korea (“**SKHYSI**”) and wholly-owned subsidiary of SK hynix Inc. (“**SKH**”). The principal purpose of the joint venture will be the development, manufacture, sale and distribution of NAND products and other related products and services using Large Scale NAND Wafers supplied by SKH. The Joint Venture Agreement will have an initial term of five years, unless earlier terminated or extended.

Launch of the joint venture is subject to certain conditions, including receipt of antitrust and other regulatory approvals (including review and clearance from the Committee on Foreign Investment in the United States), entry into a NAND supply agreement between the joint venture and SKH, and a back-end manufacturing agreement between the joint venture and the Company. Upon launch of the joint venture, the NAND Supply Agreement, dated as of October 1, 2016, between SKH and the Company will be terminated.

SKHYSI has agreed to contribute \$3.6 million in cash for a 60% ownership in the joint venture, and the Company has agreed to contribute \$2.4 million and certain tools and machinery (with an aggregate book value of less than \$55,000) for a 40% ownership in the joint venture. The Company has also agreed to provide limited transition services and design services to the joint venture and will use commercially reasonable efforts to transition the Company’s current NAND customers to the joint venture. It is expected that up to fifteen current employees of the Company will transfer to the joint venture.

The Company will be entitled to a quarterly special dividend relating to the profit of the joint venture for the period beginning on the launch of the joint venture and ending on December 31, 2020, for all sales made by the joint venture using up to 15,000 wafers per quarter. In addition, the Company will be entitled to 50% of the profit relating to wafer inventory (from such 15,000 wafers per quarter) through January 31, 2021.

The Company will have the right to nominate a minority of the board of directors and will have limited special approval rights over operations of the joint venture. The Company expects to account for this joint venture under the equity method.

SKHYSI will have the right to acquire a 10% interest in the joint venture from the Company in the event that the volume of wafers supplied by SKH to the joint venture exceeds 15,000 wafers per month (excluding any wafers that relate to the Company’s special dividend) for three consecutive months. SKHYSI will also have the right to acquire all of the Company’s interests in the joint venture upon a change of control of the Company to a competitor of SKHYSI or SKH. Additionally, the Company will have the right to cause SKHYSI to purchase all of the Company’s interests in the joint venture, and SKHYSI will have the right to cause the Company to sell all of its interests in the joint venture to SKHYSI, in each case, if the parties cannot agree to an extension of the joint venture past the initial term. The purchase price in each of the above circumstances will be an amount equal to the book value of the joint venture’s shareholder equity multiplied by the percentage interest being acquired.

Each of SKHYSI and the Company has agreed that, subject to certain exceptions, neither party nor any of its controlled affiliates shall, directly or indirectly, sell NAND or MCP products consisting of NAND and DRAM in competition with the joint venture for the term of the Joint Venture Agreement.

In addition to the above terms, the Joint Venture Agreement contains customary terms, conditions, representations, warranties and covenants of the parties for like transactions. The foregoing description is qualified in its entirety by reference to the Joint Venture Agreement that will be filed subsequently as an exhibit to our Annual Report on Form 10-K.

Item 7.01 Regulation FD Disclosure.

On October 25, 2018, the Company released an investor presentation containing additional detail on the Joint Venture Agreement and the joint venture. A copy of that investor presentation is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	<u>Investor Presentation, dated October 25, 2018.</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 25, 2018

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Thad Trent
Thad Trent
Chief Financial Officer and Executive Vice President, Finance &
Administration



Cypress Enters into Joint Venture with SK hynix system ic for NAND Flash Business

Sharpens Cypress' Focus on Cypress 3.0

October 25, 2018



Safe Harbor Statement

Cautionary Note Regarding Forward-Looking Statements

This presentation contains statements that are not historical in nature, but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated by the forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding: the future financial and operational performance of the joint venture; the effective date of the implementation and launch of the joint venture; statements about the joint venture's operations; the ability of the joint venture to supply customers with a continued and stable supply of products and robust technical support; expected gross margins from NAND Flash; the stability of our revenue base going forward; and the financial impact of the joint venture including its effect on our long-term revenue growth rate, long-term gross margins, and long-term cash flow. Such statements reflect our current expectations, which are based on information and data available to our management as of the date of this presentation. Our actual results (and the results of the joint venture) may differ materially due to a variety of risks and uncertainties, including, but not limited to: the uncertainty of regulatory review; our ability to execute on our Cypress 3.0 strategy; global economic and market conditions; business conditions and growth trends in the semiconductor market; the ability of the joint venture to compete effectively; the volatility in supply and demand conditions for semiconductor products, including but not limited to, the impact of seasonality on supply and demand; the ability of the joint venture to develop, introduce and sell new products and technologies; potential problems relating to manufacturing activities; and other risks and uncertainties described in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections in our most recent Annual Report on Form 10-K and our other filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which are not guarantees of future performance. We assume no responsibility to update any such forward-looking statements. Our target model describes long-term financial objectives Cypress hopes to achieve over several years and is inherently speculative and uncertain. Cypress' long-term objectives are subject to business, economic, competitive, industry, regulatory, market, and financial uncertainties, many of which are beyond Cypress' control. We cannot assure you that the estimates and assumptions made in preparing the long-term objectives will prove accurate; and our target model might not be achieved.

Cypress 3.0 Strategy

Vision

Embedded systems enable solutions that sense, connect, learn and respond to make life easier, save time and energy, and provide a better user experience

GROWTH

Focus on high growth markets:
Automotive, Industrial and IoT

MARGIN

Invest and innovate in differentiated and proprietary solutions

CASHFLOW

Focus on shareholder *value*
via growth in *revenue, gross margin and earnings growth*

Transaction Rationale

- Reduces Cypress' exposure to a highly commoditized product line that has traditionally been highly volatile with low gross margin
- Converts a two year take-or-pay wafer purchase agreement into a five year JV that will generate much greater cumulative cash to Cypress via ongoing dividends
- Delivers our customers a long term roadmap and robust technical support; JV run by Hynix, a NAND leader best positioned to lead in this market
- Creates a "Win - Win" outcome for customers and Cypress alike

Continuing to Execute on Cypress 3.0 Strategy

MPD Q3'18 Revenue Composition



Increases exposure to stable and predictable Automotive and Industrial markets to 68%
Maintains focus on Enterprise for 4.5G and 5G deployment

Transaction Details

OVERVIEW

- Cypress is entering into a joint venture ("JV") with SK hynix system ic, for NAND Flash business
- The JV entity will be a subsidiary of SK hynix system ic; Cypress will own 40% of the JV
- JV is expected to be completed in the first quarter of 2019, subject to regulatory and other customary closing conditions
- Back-end services for the JV will be provided by Cypress
- LTM NAND Flash revenues of \$186M

FINANCIAL IMPACT

- Improves Cash Flow to Cypress: Current Buy/Sale wafer agreement is estimated to provide approximately \$80M projected cashflow over two years. This proposed transaction is projected to provide greater than \$150M over a five year period
- Eliminates future negative gross margin pressures: NAND Flash GM expected to decline to 20-30% range over the next two years*
- The NAND business will be excluded from Cypress' non-GAAP results and accounted for under the equity method in GAAP results
- Cypress will transfer approximately \$3M annual operating expenses to the JV, including 15 employees

* On a non-GAAP basis. A forward looking reconciliation to gross margin for NAND Flash on a GAAP basis over the next two years if the business remained with Cypress, has not been provided because the reconciling items – including amortization of intangibles and stock-based compensation expense attributable to NAND flash – are not available without unreasonable effort. Certain factors that are materially significant to our ability to estimate these items are out of our control and/or cannot be reasonably predicted.



Continuing to Execute on Cypress 3.0 Strategy

GROWTH

- Accretive to Cypress' long term revenue growth rate
- Sharpens focus on differentiated solutions for Auto, Industrial and IoT

MARGIN

- Accretive to long-term gross margins as we execute to our 50% GM model
- Approximately 50% of the NAND business is in the commodity-oriented consumer market

CASHFLOW

- Extends approximately \$80M projected cash flow over two years to greater than \$150M over five years