

Cypress Semiconductor goes it alone without SunPower

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T. J. Rodgers is at it again.

The Cypress Semiconductor chief executive, who blew up his high school and college chemistry labs and has since become one of Silicon Valley's most colorful characters, stunned the industry and many of his shareholders six years ago when his company began investing in the solar-panel firm SunPower.

Since then, SunPower has been a major success for San Jose-based Cypress, last year accounting for some \$775 million — or about half — of Cypress' revenue. But not anymore.

Believing Cypress needs to refocus itself, Rodgers arranged two weeks ago for the chip maker he founded in 1982 to relinquish its controlling interest in its SunPower subsidiary, giving its stock to Cypress investors.

As a result, while Rodgers will remain SunPower chairman, Cypress no longer will earn revenue from SunPower and must make its own way through one of the worst economic downturns in the nation's history.

Has Rodgers lost his marbles? Not at all, he insists.

"I'm real optimistic," he said during a recent interview in his office, which is crammed with memorabilia from his beloved Green Bay Packers

football team, some of it autographed by Bart Starr and other legends of the team he adopted as an Oshkosh, Wis., native.

"We're doing fine during hard times," he said, adding that the company is making a good profit on its chips. "So to me it's all upside."

Rodgers shouldn't be underestimated, said Sandy Harrison, an analyst with investment bank Signal Hill, calling the Cypress executive "a character" who has "done a nice job in the business."

Although investing in SunPower turned out to be "one of the smartest things he's done," Harrison said, it probably makes sense now to separate Cypress and SunPower. Investors, he said, were confused about whether the combined company was a chip maker or a solar panel producer, resulting in Cypress' stock being undervalued.

Harrison also likes Rodgers' plan to reduce the percentage of chips Cypress makes itself, from 90 percent to 50 percent. At the same time, he favors the company's new focus on programmable chips, which can be easily adapted for use in everything from digital cameras and mobile phones to coffee makers and "intelligent running shoes" that automatically adjust their cushioning.

As for Cypress' outlook, Harrison said, "we think they're in good shape."

Getting there wasn't easy for the 60-year-old Rodgers.

After being hospitalized for two weeks with burns when he accidentally set off an explosion in his high school lab making a thermal flare for his girlfriend, Rodgers majored in physics and chemistry at Dartmouth College. He went on to earn a doctorate in electrical engineering at Stanford,

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where he also caused a large explosion in a laboratory while doing an experiment.

After working at two chip companies, at age 34 he founded Cypress, where his opinions proved volatile, too.

A fervent libertarian, Rodgers provoked teeth-grashing among some tech executives when he testified in Congress in the early 1990s, arguing against federal corporate subsidies. Then he whipped up more controversy in 1996 after a nun complained that Cypress' board lacked women and ethnic minorities. Rodgers replied in a letter that forcing companies to be more politically correct can hurt their profits and do a disservice to their shareholders. Today, Cypress has an African-American, Lloyd Carney, on its seven-member board.

He can be an acerbic employer, as well. In 1993, Fortune magazine named him one of America's seven toughest bosses "because he will cut off a paycheck when a manager temporarily falls behind in his work."

Rodgers concedes he dislikes wastefulness.

"I'm cheap," he said, adding, "I criticize people that use their cell phone too much. . . . The top 10 cell phone users at Cypress get my personal attention."

But his workers can earn attractive stock benefits and Rodgers often gives them morale-boosting trinkets, including items related to the Green Bay Packers, whose games he regularly attends. Moreover, since going public in 1986, the company has posted an annual loss only six times, twice during the 1990s and four times after the dot-com bust. Last year, Cypress recorded its biggest profit ever — \$394 million.

Aside from spinning off SunPower this year, Cypress has divested itself of several other chip-related subsidiaries in the past couple of years.

And it has shifted its product emphasis from memory chips — used to store various types of information — to the programmable kind, so named because companies that buy them can program the chips to perform functions specific to their products.

With the market oversaturated with memory chips, it's a good option for Cypress, said Jim Feldhan, president of Semico Research, a semiconductor consulting firm in Phoenix.

"The programmable business presents a lot of opportunity," he said. Instead of having to make a different chip for each product that uses it, "the consumer can customize it."

Rodgers also is studying the possibility of using his chips to create extremely long-lasting and energy-efficient solid-state light bulbs as well as thermoelectric generators, which produce electricity from heat. Plus, he has pumped considerable time — and money — into his budding winery, a fact he regards with some irony.

As careful as he is about keeping costs in line at Cypress, he said, "if I actually looked at the return on investment in the wine business, I would commit suicide immediately."

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Headquarters: San Jose

Founded: 1982

Business: Makes computer chips, especially the kind customers can program for various purposes

2007 revenue: \$1.596 billion

2007 profit: \$394 million

Employees: About 4,300

Source: Cypress Semiconductor

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