

BOARDS AT WORK

Inside the Board at Cypress Sem

Two successive boards—first the venture capitalists, then some of Silicon Valley's most successful entrepreneurs and executives—helped Chief Executive T.J. Rodgers (right) build a hot company. It's been a passionate ride, as this exclusive story shows.



You don't expect pinstripe decorum at Silicon Valley board meetings, but probably none of them gets much livelier than the monthly gatherings at Cypress Semiconductor Corp. Ten or more top managers routinely join the CEO and four other directors (all outsiders) to argue strategy, seize on one another's lapses, push for or against this deal or that—and take occasional swipes at Chief Executive T.J. Rodgers, 52.

But that's OK with him. He admits that "the screamers," as he calls them, are sometimes on target. He even allows that he's not always paid them sufficient attention. "There were five or six occasions when I did not take the board's advice. In every one of them I was wrong, and it cost the company double-digit millions of dollars," he says. One of his earliest such mistakes: Despite board objections, back in the 1980s before Cypress went public, he bought the FCT logic line, a technology used to build electronic systems. "We never made any money on it," Rodgers recalls. "We were sorry we bought it." These days, he says, "if I have one screamer, one doubter, and two guys on my side, I go back and do another analysis."

Anyone who has followed the career of T.J. Rodgers knows that he likes to follow his own star, earning a reputation as Silicon Valley's toughest boss in the process. All the more surprising then, as this story will

show, are the ways in which successive boards have helped and challenged Rodgers to build an extraordinary company. As Rodgers himself points out, good directors—the venture capitalists who helped him jump-start the company and the seasoned executives who took their place—are quick to help, quick to share their own experiences, and, when necessary, just as quick to deliver a kick in the pants. Doubtless the other technology boards give their CEOs similar support. But it is difficult to imagine a company where sparks and passion fly quite as

creatively. At Cypress, the whole board—the individual directors plus their CEO—is undoubtedly greater than the sum of its separate parts.

Top managers factor into the math, too. They get to hear an extraordinary amount of sensitive information that most boards, even in info-porous Silicon Valley, would fight to keep under the tightest of wraps. "T.J. swears everyone to secrecy," says board member Fred Bialek, a private consultant. "Sometimes it works, sometimes it doesn't." The board goes into executive session after each of its meetings to discuss super-sensitive issues, such as plans to zero in on Galvantech, a company specializing in high-performance memories for networking applications that Cypress bought this past January. But even here, executives involved in the deal joined the board to talk numbers and other details.

Rodgers' first exposure to how a board and management should work together began when he worked for Advanced Micro Devices in the early 1980s. Rodgers describes himself at the time as "a decent technological department head who could competently manage 100 people and make amazing high-tech things." He was accustomed to meeting directors only when he made board presentations. "It was generally recognized that you shouldn't make too much noise because if they were sleeping, you didn't want to wake them up."

Rodgers came up with his idea for a company that would make semiconductors in 1982, pitching it to Benjamin Rosen, the founder of Compaq and a legendary venture capitalist. Rosen was tepid, but he did hook up Rodgers with his partner, L.J. Sevin, founder of Mostek, a chip maker in Texas. Sevin liked the idea. Rosen warmed to it and then bought in, as did four other VCs, as venture capitalists are called in the Valley. Among them: Pierre Lamond, a general partner in high-profile VC firm Sequoia, an early investor in Apple Computer, among other companies, and L. John Doerr, a partner in the VC giant Kleiner Perkins Caufield & Byers. (See page 49 for more on Doerr's world.) Sevin agreed to become chairman of Cypress, while Lamond and Doerr signed up as directors. Including Rodgers, the board's head count came to four.

In these early days, Rodgers' us-versus-them opinion of directors hadn't changed. But this time, he was on

THE REST OF THE BOARD

ERIC A. BENHAMOU, 44

Chairman and CEO, 3Com
Other boards: Legato Systems Inc.

FRED B. BIALEK, 65

Consultant
Other boards: Chip Express*, Inviso*, Global Factory*, Choice Logic*

JOHN C. LEWIS, 64

Chairman and retired CEO, Amdahl**
Other boards: Vitesse Semiconductor and Pinnacle Systems

ALAN F. SHUGART, 69

Co-founder, Shugart Associates
Other boards: Blue Sky Research*, Inktomi*, NxtWave Communications*, SanDisk*, Sierra Imaging*, Siros Technologies*, Valence Technologies*

* privately held

** a wholly owned subsidiary of Fujitsu

the other side. Just before Cypress got officially off the ground, his six investors visited him at his home. After seeing to it that there was enough comfortable seating for them, Rodgers says, "I dragged out a stool from the kitchen for myself. It was taller and I sat above all the others."

It wasn't long before he gained a healthy respect for his fellow directors. Rodgers recalls how Lamond

were all older, and they had more experience in the business than I did," says Rodgers, who was in his 30s and a decade greener than all of them. "There's no way I could have accelerated at the rate I did to become an effective CEO without the expertise, guidance, and wisdom of my board."

Sometimes the shared wisdom was pretty basic. For example, when it became apparent that the fledgling

CEO couldn't read a balance sheet, Sevin took it upon himself to bring in an MBA to give Rodgers some crash coaching in the financial makeup of a semiconductor manufacturer. A short time later, Rodgers needed to put together a European sales force. This time he knew to ask for help. Lamond hooked him up with a colleague who traveled

with Rodgers around Europe. In a month, the two had put a Cypress marketing team in place. Rodgers still seeks board guidance. At February's board meeting he confessed "I don't know a damn thing" about a specific technology they were discussing and asked the directors to suggest some reading material.

But perhaps it was the 1986 initial public offering that made Rodgers appreciate his board most. "After your IPO," says Rodgers, "you realize that the sharks who were your venture capitalists are more like your mother in comparison to the sharks on Wall Street."

As with many other new companies, the original venture capitalists who joined the board began to resign their directorships shortly after the public offering. As they filed out, Rodgers brought in directors who had trodden paths that he now wanted to follow. Among them: Eric Benhamou, who, as chairman and CEO of 3Com, knew about running a big technology company. He joined the Cypress board in 1993 and became chairman in 1998.

Before long, a bigger payroll meant Rodgers needed help with many large-scale managerial responsibilities, among them, setting up 401(k) retirement plans. The head count had grown from 344 employees in 1986 to 1,500 in 1992; now it's 3,600. For expertise in this, he turned to John Lewis, chairman and former CEO of Amdahl. Lewis joined the Cypress board in 1993. Fred B. Bialek, a founder of National Semiconductor and a consultant to Cypress since 1986, came aboard in 1991. And in 1998, following his retirement as CEO of Seagate Technology, Alan F. Shugart signed on. By year's end, Rodgers had the directors in place who would see Cypress into the millennium.

In addition to his human resources skills, Lewis brought the experience of running a multinational, which Cypress increasingly needed. "In Silicon Valley," says Lewis, "there is a culture of how to run a technology company, and it is a process. A product cycle is 18 to 20 months. If you miss one generation, you can be bankrupt in a couple of years. The stakes are so high and the passion so intense that there is no room on a board of directors for an individual who does not

"AFTER YOUR IPO, YOU REALIZE THE SHARKS WHO WERE YOUR VENTURE CAPITALISTS ARE MORE LIKE YOUR MOTHER IN COMPARISON TO THE SHARKS ON WALL STREET."

looked at him at Cypress's first formal board meeting in 1983 and said, "T.J., should you be so lucky as to be running Cypress Semiconductor five years from now, what is your vision for the company?" Says Rodgers today, "Of course, the question had nothing to do with vision. What the guy meant was, 'Remember, punk, we can fire your ass at will.'"

Not surprisingly, Rodgers initially treated his board with great caution. "During the first year, I went alone to meetings. I certainly didn't expose vice presidents or other senior executives to board members. During that period I also jealously guarded information, because I didn't want some comment from the board to blow up in my face." Rodgers says it took him a full year to realize that "despite the fire-my-ass comment, the directors' real goal was to help me build a successful company. Board members are tough, at least ours always have been, but they want you to succeed."

Rodgers also says that having the right venture capitalist on the board of a start-up is critical to its success. "They have a lot more than their money at stake. They have invested their egos."

It took Rodgers another year to understand the process of how to manage a business and build its infrastructure, and he credits the directors on Cypress's first board with accelerating his learning curve. "They

WHAT THEY MAKE

Outside board members at Cypress receive \$5,000 per quarter. In addition, each director receives options on 80,000 shares of common stock on the day he is formally elected to the board and options on 20,000 more shares each year he remains on the board.

Like other shareholders, directors have seen swings in the value of their options. After reaching nearly \$54 in 1995, Cypress stock yo-yoed through the following years, hitting a trough of \$6 in 1998 and then bouncing back to \$32 at the end of 1999. In February it was \$40.

ERIC A. BENHAMOU Chairman

Benhamou is the softest-spoken member of the Cypress board, a group known for letting its opinions turn into noisy debate. In fact, he speaks so softly that others often have to strain to hear what he said. That's fine by CEO Rodgers, who recognizes in Benhamou an executive "who's been where I want to be." Rodgers is speaking of 3Com, where Benhamou is chairman and CEO, a company whose sales and profits dwarf Cypress's. Benhamou also has made other long journeys. Born in Algeria of Jewish parents, he was a pioneer in Silicon Valley. An engineer by training, he co-founded Bridge Communications, a networking company that was acquired by 3Com in 1987. He serves on a number of nonprofit boards, and three years ago President Clinton named him to his Technology Advisory Committee. About his role on the Cypress board, Benhamou says, "Even if I would do something completely different from T.J., I would not veto his decision. Our duty as a board is to ensure that the best possible CEO is in charge of the company and to provide counsel. But we don't look at every single step he takes."



ALAN SHUGART

Shugart is the newest member of the Cypress board, the least formal (he favors loud shirts), and he just might be the best connected. Shugart went to work for IBM the day after he left college and headed the team that developed the rigid disk drive. A transfer to New York encouraged him to leave Big Blue in 1969 and move back to his native California. There he joined Memorex, taking with him scores of IBMers, many of whom he recruited at the Paddock Lounge, a bar near the IBM offices. He went on to found Shugart Associates, which pioneered the floppy disk, and then Seagate Technologies, the largest independent manufacturer of disk drives. Rodgers calls Shugart the "grand entrepreneur of Silicon Valley" who has created as many as 50,000 jobs. Mindful that those jobs are now held by priceless contacts in the industry, Rodgers offered Shugart a board seat when he retired from Seagate in 1998. Sure enough, in every deal that Cypress has since explored, Shugart has known at least one of the players.

78

C O R P O R A T E B O A R D M E M B E R

make a contribution to either the technology or how the company should be branded, positioned, and run."

Over the years, such passions produced the products that brought in a Who's Who of blue-chip customers for Cypress's integrated circuits. Among them: Ericsson, IBM, Intel, Lucent Technologies, Motorola, NEC, and Sony. And, of course, investors and directors, past and present, helped too, through their overlapping business interests and contacts. Compaq, Seagate, and 3Com, for example, all buy from Cypress.

Those same passions sometimes produce the screamers that Rodgers talks about. The boardroom where the emotions get vented, a few cubicles down from Rodgers' office, is a modest space furnished with chairs purchased from an office supply catalog. The artwork on the walls includes a watercolor of a group of suited directors pointing fingers at one another; the picture reminds the visitor of Rodgers' book, *No-Excuses Management* (Doubleday, 1992).

A few days prior to each monthly board meeting, the directors receive an agenda that, says Shugart, "is followed to the minute." At Cypress, though, sticking strictly to the program doesn't dilute the intensity. For one thing, the top managers, all of whom are on first-name basis with the directors, can count on lively questions from board members and second-guessing on their reports. "We never need a presenter to ask, 'What do you think?' Comments are free flowing," says Shugart. Adds board member Bialek: "We have no problem saying, 'Hey pal, why aren't you doing it this way?'" Or Rodgers may turn to the staff, as he did at the February meeting, and say, "How are we putting this together, guys? I'm getting two different answers. Is there sandbagging in one of them?"

Benhamou points out that having top managers at board meetings is good for the directors because it gives them "a sense of how the management team is hanging together." And it's not lost on managers that the board

is constantly evaluating them, sometimes with dire results. When one vice president made a particularly weak presentation, a director cornered Rodgers after the meeting to ask, "Don't you think it's time to pass the baton?" Before he could be formally stripped of his baton, the VP quit.

Boardroom exposure also provides "a great experience for a senior executive or the head of a business unit to see what the issues are in the other sectors of the company," says Benhamou. "It's good for them to see how the CEO presents the company to the board, which is, after all, a proxy for the shareholders."

Cypress's stockholders have had their ups and downs. An industry downturn during the 1990s, and a steep drop in the prices it could charge for its chips, battered Cypress's earnings. The company barely broke even in 1997, and in 1998 it lost nearly \$105 million on sales of \$555 million. The end of 1999, however, saw the company come roaring back with its first \$200 million quarter. On that occasion, Cypress threw a big outdoor party for its employees. Cypress's 1999 revenues were \$705 million, on which it made \$91.1 million. This still leaves the company shy of the \$1 billion in annual sales that Rodgers once identified as his "Big Hairy Audacious Goal"—an expression he borrowed from *Built to Last* (HarperCollins, 1994), by James C. Collins and Jerry I. Porras—but some industry watchers think he'll make it within a year or so.

Sometimes Rodgers himself seems to be the lightning rod for shareholder controversy. Like most Silicon Valley companies, Cypress's directors are not only few in number but also exclusively white and male. In 1996, Sister Doris Gormley of the Sisters of St. Francis of Philadelphia, an order that considers shareholder activism to be among its callings, sent a form letter around the Valley demanding that boards reflect "the equality of the sexes, races, and ethnic groups." Most CEOs who got the letter took vows of

CYPRESS'S INTERNET STRATEGY



Cypress's website, founded in 1995, has evolved in three stages, which company marketing director Joe McCarthy describes as "inform, interact, and transact."

Phase one was relatively simple. Cypress placed all its technical documentation, including application notes, data sheets, and product information, on the internet. In Phase two,

the company began to automate what had previously been done manually, establishing online ordering for customers and training programs for employees. Cypress also set up what's known as a "parametric" search engine, which enables design engineers to locate chips that meet various technical criteria, such as function and package type.

Phase three, which is still being developed, expands Cypress's e-commerce capabilities, setting up ordering and tracking systems and building "extranets"—secure, private sites where sensitive information can be exchanged with salespeople and strategic customers.

The company's Web-based technology, says McCarthy, saves time and greatly reduces the cost of printed catalogs and the like. Cypress runs online seminars to introduce new products and technology. It also has set up a customer feedback program, which relies in part on Web-based surveys. The customer site receives 75,000 hits per week, and many visitors have signed up for updated versions of Cypress products and services.

"People are bombarded with marketing messages at home, at work—anywhere they go," says McCarthy. "Web-enabled 'permission' marketing—building an 'e-relationship' with customers and responding to their information requests in real time—provides companies with a way to rise above the noise. That's the true value of the Internet." Want to know more about Cypress's web development program? E-mail webmaster@cypress.com.



Inside Cypress

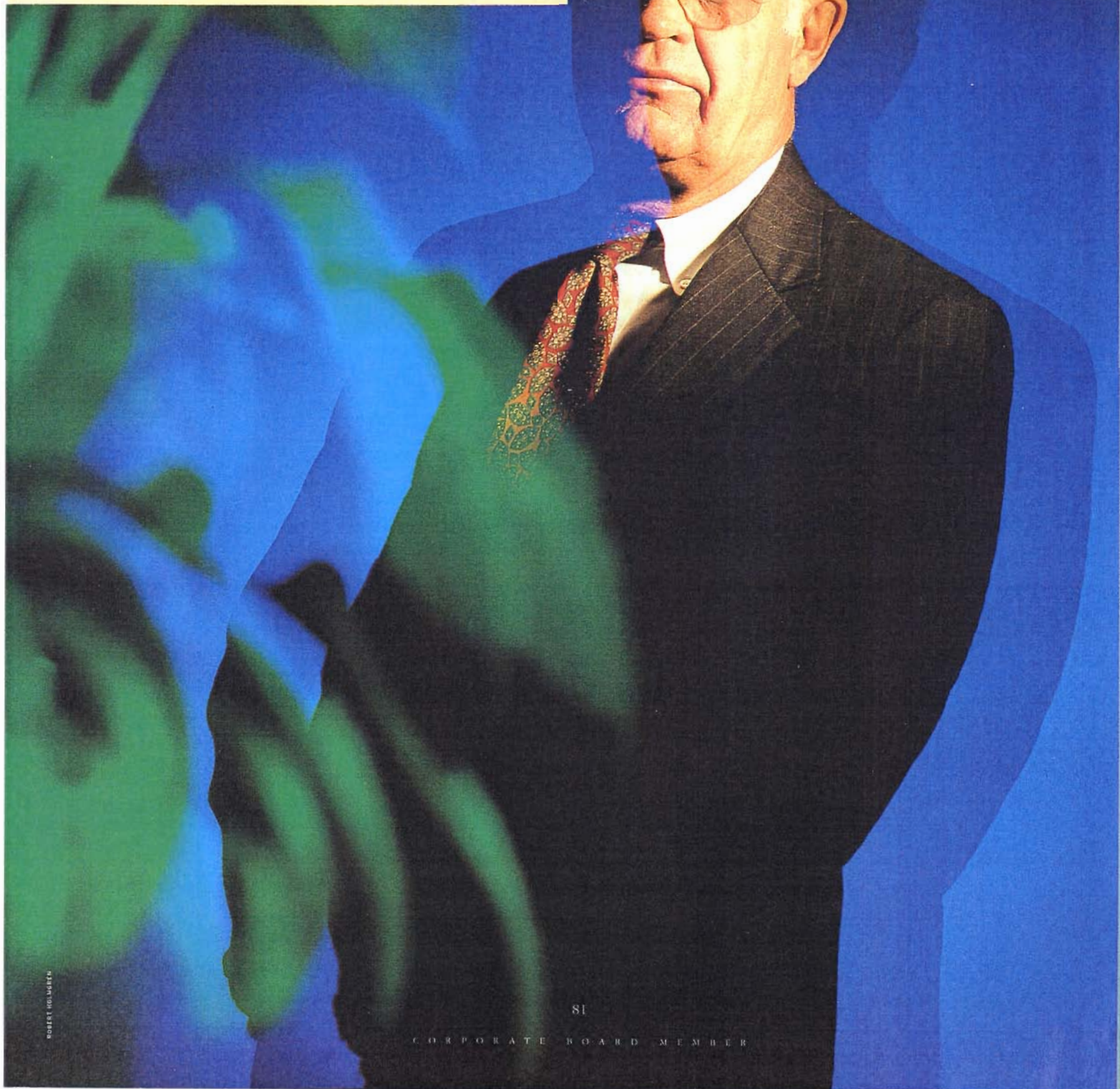
FRED BIALEK

This is the director who probably knows the company—and its CEO—best. Indeed, Bialek was at Rodgers' side from the very early days as a paid consultant, a role he still performs. Bialek, who joined the board in 1991, brings a valuable background to Cypress by way of more than 30 years' experience in the semiconductor industry. He was a co-founder of National Semiconductor, and he remains tuned in to the rapid evolution of Silicon Valley's new products. He attends all of Cypress's product group meetings. Bialek's other specialty: scouting for merger and acquisition opportunities and bringing them to the board's attention. His long association with Rodgers gives him a special license to rein him in on occasion. "There are disagreements on business issues, and we fight over them," he says. "I know so much about what goes on in the company that I sometimes disagree with T.J. And if I wasn't there, he could probably convince the board that he is right. But whatever differences we have, we solve outside the boardroom."

JOHN C. LEWIS

A director since 1993, Lewis brought maturity and experience to Cypress, helping the company move from its boisterous youth into maturity. In many ways, Lewis is the most traditionally buttoned-down of Cypress's directors, with a background rich in Fortune 500 corporate experience. In 1960, he started as a salesman for IBM's service division and advanced fast, eventually heading up product planning. In 1970, he moved to Xerox and again notched up a series of quick promotions. He was president of Xerox Business Systems when he left in 1977 to become president and later chairman and CEO of Amdahl, a computer manufacturer. He has since stepped down from those posts. Lewis's depth of technical knowledge and industry experience aren't his only value, however. "What he brings to the table," says Rodgers, "is general management, finance, and human resources skills. And when you're a rag-tag start-up like Cypress, you need people like Jack Lewis to keep it together."

Inside Cypress



silence, but not Rogers. He turned feisty. He wrote back to Sister Gormley, telling her, among other things, that "the semiconductor business is a tough one with significant competition from the Japanese, Taiwanese, and Koreans. There have been more corporate casualties than survivors. For that reason, our Board of Directors is not a ceremonial watchdog but a critical, management function." Rodgers' letter was

Benhamou picks up the same theme. "In the course of growth, a company goes through several stages and key transitions. You don't run a \$6 million company the same way you run a \$200 million one. The apparatus is different and having a board member who has been through what you're going through is beneficial to any CEO. I believe this is one reason T.J. wanted me on his board."

"IF YOU MISS ONE PRODUCT GENERATION YOU CAN BE BANKRUPT IN A COUPLE OF YEARS. THERE'S NO ROOM FOR A DIRECTOR WHO DOESN'T MAKE A CONTRIBUTION."

published in the *San Jose Mercury News*, Cypress's hometown newspaper, and earned Rodgers a *Wall Street Journal* headline: "CEO Who Took On a Nun in a Crusade Against Political Correctness."

In 1999, when the Rev. Jesse Jackson claimed that "many black and brown professionals say they are being locked out of the industry, despite receiving training at the best universities," Rodgers spoke up again, this time in an article he wrote for the *Mercury News*. Under the headline "Valley Should Stand Up to Jackson's Divisive Tactics," Rodgers called the black activist's claims "ridiculous" and cited various statistics about the number of minorities working in the Valley. "I invite the Rev. Jackson to send me the résumés of those disenfranchised people who've received training from 'the best universities.'" With 115 open positions, we could use them," Rodgers wrote. "We hire 500 people a year and still never fully meet our needs—just like most other Silicon Valley companies." Rodgers has challenged Jackson to a public debate, so far to no avail.

The board seems to take Rodgers' penchant for duking it out in public in stride. "T.J. is entitled to his own opinions and to how he expresses them, so long as they are in the best interests of the shareholders," says Benhamou. "In my tenure with the board, I've never had any opportunity to doubt that. As for the style he uses, well, that's his personality. I'm much more concerned about content."

Like it or not, Cypress is going to have to change some of the ways it does business. For one thing, Benhamou acknowledges that, good though the current mix of one inside director to four outsiders might be, "over time, it will be necessary to have a higher ratio of senior executives to outside directors." The mix of outside directors is itself also likely to change. Says Lewis: "We will add people who are in the industries we are in and who are trying to penetrate the same areas."

Another difference between his company and Cypress, says Benhamou, and perhaps the more significant one, is in the way time is allocated at their board meetings. "At 3Com, we spend much more time on governance issues, such as audit, legal, and security concerns. Our committee meetings are longer and more frequent. At Cypress, board meetings tend to

be more direct and to focus on operational issues." And because of its size, the Cypress board also tends to handle everything, delegating very little to committees. In fact, it only has two: compensation (made up of Benhamou and Lewis) and audit (Benhamou, Lewis, and Bialek).

Even Rodgers anticipates the time when Cypress—which is, after all, a ripe 18 years old—begins to act its age. He already is focusing board meetings less on technical matters and more on what he calls "a fifty-fifty hybrid mix of operations and formal board meetings." These days, directors are spending more time talking about product development and acquisitions.

Discussion of acquisitions inevitably spills into discussion of corporate culture and, particularly, how new senior employees will adapt to Rodgers' demanding ways. This issue has resurfaced with the Galvantech acquisition, and Rodgers addressed it at the February board meeting in his typical no-nonsense way: "If they don't jerk me around, if they don't lie to me, and if they are straight with me, they'll be fine. There's no bullshit politics here." That satisfied the board members, who moved on to other topics.

The aftermath of acquisitions and other management challenges go with established companies, not new ones. It seems that most of the Cypress directors have a sense of loss in the fact that the company is maturing. "Start-ups can beat the big boys through focus," says Bialek. "It's a lot tougher to focus on the intricacies of growing a company than to focus on growing a product."

What he didn't say—and if he had, T.J. would have probably gone along with it—was that start-ups and seat-of-the pants governance are much more fun. 🌐