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ISSI - Q4 2011 Integrated Silicon Solution Inc Earnings Conference Call

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PRESENTATION

Operator

Good day everyone and welcome to the ISSI fiscal Q4 2011 quarterly earnings conference call. As a reminder, today's conference is being recorded. At this time, I would like to turn the proceedings over to Mr. Scott Howarth, Chief Executive Officer. Please go ahead, sir.

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Good afternoon, and welcome to ISSI's conference call for the 2011 fourth quarter and fiscal year ended September 30, 2011. I am Scott Howarth, President and Chief Executive Officer and with me is John Cobb, our Chief Financial Officer. Before we proceed, I've asked John to comment on the nature of this call and any forward-looking comments that may be made.

John Cobb - *Integrated Silicon Solution, Inc - CFO*

Thanks Scott and good afternoon. During the course of this conference call, we will provide financial guidance, make projections, comments and other forward-looking statements regarding future market developments, the future financial performance of the Company, new products, or other matters.

We wish to caution you that such statements are just predictions or opinions and that actual events or results may differ materially due to fluctuations in the marketplace, delays in developing new products, changes in demand or supply, availability of foundry capacity, or adverse developments in the global economy.

We refer you to the documents ISSI files from time to time with the SEC, specifically our most recent Form 10-K filed in December 2010 and our most recent Form 10-Q filed in August. These documents contain and identify important factors that could cause our actual future results to differ materially from those contained in our financial guidance, projections, comments or other forward-looking statements.

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Thank you, John. We are pleased with our overall performance for both the quarter and year in which we achieved solid profits and cash flow. We achieved strong demand across our target markets as we continue to increase our design win momentum and gain market share with our expanded product offerings. We believe these financial results once again demonstrate the strength of our high quality specialty memory focus in long-term consistent supply relationships with customers.

Revenue in the September quarter was $71.3 million, which was at the high end of our guidance range. Our GAAP net income was $34.9 million or $1.23 per share. This includes a $28.1 million income tax benefit which John will discuss in more detail shortly. Our non-GAAP net income was $8.2 million or $0.29 per share. Our non-GAAP results exclude the income tax benefit, stock compensation and the amortization of Si En intangibles. We also achieved $11 million in cash flow from operations.

For fiscal 2011 revenue was a record $270.5 million, increasing of 7.1% from the prior year. GAAP net income was $56 million and non-GAAP net income was $33.4 million or $1.18 per share. On top of these solid net income numbers, we generated $30.6 million in cash flow from operations during the fiscal year.

SRAM and DRAM revenue in the fourth quarter increased 1.1% sequentially to $60 million, which was within our guidance of relatively flat sequentially. DRAM revenue grew 6% sequentially, driven mainly by demand from our automotive and communications customers. SRAM revenue decreased 9% sequentially as a result of weaker demand in the industrial markets, primarily in Europe.

We also continued to successfully execute our strategy to gain share in our key markets. Automotive revenue grew 2% from the June quarter and 33% from the year ago quarter. We also achieved strong sequential growth in the communications market with 8% revenue growth. However, our communications market revenue decreased 14% on a year-over-year basis due to overall end market weakness. The industrial, medical and military revenue decreased 15% sequentially as Europe demand was weaker during the quarter but increased 41% from the year ago quarter. We believe there are large and growing opportunities for ISSI in these markets where customers value our high quality products, superior engineering capability and long lifecycle deport.

Now I will briefly review our key markets and products, including DRAM, SRAM and analog. During the September quarter, specialty DRAM represented 62% of our total revenue and increased 7% on a sequential basis, while commodity DRAM represented less than 1% of our total revenue, giving ISSI almost no exposure to this volatile memory market. For the year, DRAM revenue increased 13% over fiscal 2010.

In terms of specialty DRAM design wins, we had another strong quarter across all of our end markets, including several large DDR2 design wins for automotive, communications and industrial applications. We also achieved a number of key design wins for both by-16 and by-32 configurations in the automotive, telecom and consumer markets.

We also have strong design activity for our DRAM products, including our 256-megabit, 512-megabit, 1-gigabit and 2-gigabit DDR2, our mobile SDRAM and our 64-megabit and 128-megabit low-power SDRAM KGD product. We expect these new devices to contribute to revenue growth in the coming quarters and further expand our market share. In addition, our SDRAM and DDR1 products are seeing increased share opportunities as some of the larger competitors reach end of life on their equivalent products.

In August, we announced that we had begun sampling a new 2-gigabit DDR2 device. This 1.8-volt device operates at speeds up to 333-megahertz. By using this more advanced technology, we are able to provide long-term product support required for long lifecycle applications in automotive, communications and industrial memory markets.

Additionally, we continue to make progress with RLDRAM memory. We have sampled our RLDRAM 2 memory to over a dozen customers who are currently evaluating and designing in our part. We expect to begin shipping revenue in the second half of calendar 2012. We plan to begin sampling our RLDRAM 3 late this quarter and have over 10 customers who have expressed interest and plan to design it in next year. We expect to begin shipping RLDRAM 3 in the second half of calendar 2012. Overall, we continue to see increased opportunities to expand our market share and grow our specialty DRAM revenue.

Turning to our SRAM revenue, SRAM represented 30% of our total revenue in the September quarter, decreasing 8% sequentially and 11% from the year-ago quarter. The decrease in our SRAM revenue was primarily the result of weaker demand in Europe in the industrial markets as customers became very cautious and delayed orders. For fiscal 2011, SRAM increased 6% compared to fiscal 2010, as we benefited from our investment to expand our SRAM offerings and increasing our market share.

During the quarter, we continued to secure strong SRAM design wins in our key markets for various densities of our products, including several large design wins with our 4-megabit, 8-megabit and 16-megabit asynchronous products, primarily for automotive, industrial and communication applications, and with our synchronous products in communication applications. We also had a large design win for our current 36-megabit quad SRAM with a leading communications company.

We have begun sampling our new higher performance 65-nanometer 36-megabit quad P synchronous SRAM and will begin sampling our new 65-nanometer 72-megabit high performance quad PSRAM later this quarter. Recent reports from our customers indicate that Samsung will exit the synchronous SRAM market by the end of 2012. We believe Samsung's exit from the synchronous SRAM market will create significant opportunity for ISSI to gain share and is advantageous in its timing, as we are rolling out new advanced 36-megabit and 72-megabit by performance synchronous SRAMs in time to replace those designs vacated by Samsung.

As we look into 2012, we plan to expand our SRAM product line with even higher performance 28-nanometer synchronous SRAM that will provide us with leading edge SRAM memory to support our growth. With our continued investment in providing competitive SRAM solutions and long lifecycle support, we are confident that we'll continue our long-term growth in the SRAM market.

And finally, our analog revenue from Si En was $5.3 million for the September quarter, which was near the high end of our expected range of $4.5 to $5.5 million. Si En's revenue grew 19% sequentially as the non-branded telephone market rebounded from the June quarter's weakness. As a reminder, Si En's products include audio power amplifiers and LED drivers for backlighting in panel display, plus some voltage converters and temperature sensors. Nearly all of Si En's revenue is from China and its higher margin products are sold into the mobile communications, digital consumer and networking markets. Si En had strong design wins in China during the September quarter across all of its product lines.

As a highlight to the strong quarter we also secured a large design win in India for Si En's fun light LED driver analog device. This is the first major design win for Si En's products that was obtained by leveraging ISSI's sales force. We see many similar opportunities for Si En's products in India and in other locations throughout the world and are very excited about our opportunities for growth in the analog market.

Looking at our guidance for the first fiscal quarter of 2012, we expect total revenue to be In the range of $65 million to $72 million. Seasonal expectations for our first fiscal quarter would be a growth quarter, but with the current economic uncertainty, slowing semiconductor growth and lower starting backlog compared to the September quarter, we believe growth this quarter will be challenging, so we've expanded our revenue range and are forecasting revenue to be flat to slightly down sequentially. We continue to see some weakness in our European market and also in the communications market. As we look forward into 2012, we see strong growth opportunities in our target markets for SRAM, DRAM and our analog products.

In summary, we are very pleased with our financial performance in the September quarter, in which our revenue was at the high end of our expected range and much better than other companies that participate in the DRAM market and even the broader semiconductor market as a whole. We believe our focus on high quality specialty memory products reduces volatility and provides greater potential for growth in revenue and profit as well as higher and more sustainable margins than can be achieved by other similar memory companies.

The advantages of our fabless business model, combined with stable end market and support for our customers' long product lifecycles further contributes to our opportunity to grow revenue and profits in the future.

One last comment before turning the call over to John. As we have previously discussed, one of our foundries SMIC, decided to exit the DRAM market last year and another foundry shut down their 0.11 micron process. In addition to transitioning customers to other foundries, we have made final purchases of SMIC inventory and the 0.11 micron process inventory to help ensure a smooth end of life transition for our customers. We have now sold nearly all of the DRAM inventory purchased from SMIC. At the end of September we had $4.1 million of the 0.11 micron process inventory and expect to sell that inventory during the fiscal year.

From a planning standpoint, lead times in foundry and assembly and test have shortened from a year ago, as foundry utilization rates and pricing have fallen. We have purchased testers and made advanced payments to foundries to help ensure adequate capacity for certain devices and reduce test costs and will continue to evaluate and make strategic investments to secure adequate supply for our products.

In addition, we don't have any contract manufacturing in Thailand and are not affected by the recent floods there. Looking forward to the December quarter, we do not expect wafer or backend capacity to have a significant impact on our business.

Now, let me turn it over to John to discuss the numbers, and I will then provide some closing remarks.

John Cobb - *Integrated Silicon Solution, Inc - CFO*

Thank you Scott. As Scott mentioned, our revenue for the September quarter was $71.3 million, at the high end of our guidance range of $68 million to $73 million. SRAM and DRAM revenue was $66 million, and analog revenue from Si En was $5.3 million. The SRAM and DRAM revenue increased 1% from $65.3 million in the June quarter and decreased 2.2% from the year-ago quarter, which was ISSI's highest revenue quarter.

Revenue in fiscal 2011 was a record $270.5 million compared to $252.5 million in fiscal 2010, an increase of 7.1%. In fiscal 2011, our SRAM and specialty DRAM revenue grew 14.7% over fiscal 2010. Our revenue in fiscal 2011 by market was 31% communications; 26% automotive; 18% industrial, medical and military; 20% consumer memory; and 5% consumer analog.

Gross margin was 33.4% in the September quarter, which was in the middle of our guidance range of 33% to 34%. This compares to 33.2% in the June quarter and 37.8% in the year-ago quarter. In fiscal 2011, our gross margin was 33.4% compared to 38.2% in fiscal year 2010.

Operating expenses were $17 million in the September quarter compared to $15.6 million in the June quarter and $15.5 million in the year-ago quarter. The September quarter operating expenses were above our guidance range of $16 million to $16.5 million due to two factors. First, we had an unexpected bad debt write-off of $400,000. Second, we incurred $400,000 in expense for product mask that were originally expected to be incurred in later quarters. As we have previously stated, our product mask expense will fluctuate from quarter to quarter, based on our product development schedules.

Even with these slightly higher expenses, we achieved GAAP operating income of $6.8 million in the September quarter compared to $7.5 million in the June quarter and $12.4 million in the year-ago quarter. Our non-GAAP operating income in the September quarter was $8.3 million which excludes stock-based compensation and amortization of intangibles related to the acquisition of Si En, compared to $9.1 million in the June quarter and $13.2 million in the year-ago quarter.

Interest and other income in the September quarter was $800,000 compared to $700,000 in the June quarter and $100,000 in the year-ago quarter. We had no gains on sales of investments during the quarter.

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In the September quarter we had an income tax benefit of $27.5 million which includes a $28.1 million income tax benefit from releasing a portion of the valuation allowance on a deferred tax asset. The company has deferred tax assets resulting from net operating loss carry-forwards, tax credit carry-forwards and other book and tax timing differences related to federal, state and foreign tax jurisdiction. Previously the company provided a full valuation allowance against these deferred tax assets due to the assumption that it was more likely than not that the assets would not be realized.

Based on our increased operating profits and expectations of continued profitability, the company has now determined that it is no longer necessary to fully reserve these deferred tax assets and as result, the company reported net deferred tax assets resulting in a $28.1 million income tax benefit in the September quarter.

GAAP net income for the quarter was $34.9 million, including the $28.1 million income tax benefit, or $1.23 per diluted share. This compares to GAAP net income of $8.1 million or $0.28 per share in the June quarter and GAAP net income of $11.8 million or $0.43 per share in the year-ago quarter.

Non-GAAP net income was $8.2 million or $0.29 per share. This compares to non-GAAP net income of $9.6 million or $0.34 per share in the June quarter and non-GAAP net income of $12.6 million or $0.46 per share in the year-ago quarter.

For fiscal 2011, the company had GAAP net income of $56 million or $1.98 per share, compared to $42.2 million or $1.56 per share in fiscal 2010. Our non-GAAP net income in fiscal 2011 was $33.4 million or $1.18 per share compared to $44.7 million or $1.65 per share in fiscal 2010. Please refer to our press release and Form 8-K for a reconciliation and further explanation of our GAAP to non-GAAP results.

On the balance sheet, we ended the quarter with $95.4 million in cash and short-term investments, which is an increase of $5.8 million from June. We generated $11 million in cash flow from operations in the September quarter and used $4 million to repurchase 500,000 shares. In fiscal 2011, we generated a total of $30.6 million in cash flow from operations. At the end of September, we had $3.61 per share in cash and short-term investments.

Our inventory decreased $4.2 million from June. Inventory turns were 3.4 in the September quarter. Excluding the additional end of life inventory that Scott mentioned, we had 3.6 turns which is below our goal of 4 turns, but still healthy for a business in the current environment.

Our accounts receivable increased during the quarter by $1 million and the days sales outstanding were 50 days compared to 49 days in June. We continue to demonstrate the strength of our fabless business model. Our book value per share has increased 79% in the last two years from $4.96 in September 2009 to $8.89 at the end of September 2011. In addition, our return on equity was 14.5% in fiscal 2011, excluding the impact of the deferred tax outset which is higher than many semiconductor companies. And we continue to generate strong operating cash flow.

Let me turn to our guidance for the December quarter. We expect that overall demand trends in the December quarter will be below typical seasonality due to the high degree of uncertainty in the global economy and slowing semiconductor demand. As such, we expect total revenue to range between $65 million and $72 million. This guidance reflects expectations of SRAM and DRAM revenue between $60.5 million and $66.5 million and Si En's revenue between $4.5 million and $5.5 million.

Gross margin for the December quarter is expected to range between 33% and 34%. We expect DRAM and SRAM pricing to be flat to slightly down sequentially. Operating expenses are expected to range between $16.7 million and $17.4 million, including higher product mask costs compared to the September quarter. As we have previously stated, our product mask costs will fluctuate from quarter to quarter. We also expect about $300,000 from interest and other income.

We expect that our effective tax rate will be approximately 25% including non-cash deferred tax expense from the reduction of deferred tax assets, excluding the non-cash deferred tax expense, the effective tax rate is expected to be 5%.

So, taking these factors for the December quarter all into account, the Company expects GAAP net income to be between $0.15 and $0.22 per share and non-GAAP net income, which excludes tax expense related to the reduction of deferred tax assets, stock-based compensation and the amortization of intangibles related to the acquisition of Si En, to be between $0.22 and $0.29 per diluted share.

Now, back to Scott for final comments.

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Thanks John. Overall, fiscal 2011 was a very good year for ISSI. Our results demonstrated the financial benefits of our high quality specialty memory focus. We achieved record revenue, had strong profit and cash flows, strengthened the balance sheet and added Si En's analog products. We continued to gain share in our target markets through expanded product offerings, design win traction and long-term support.

In the months ahead, we'll continue to focus on our five key objectives which are number one, to grow our customer base and number of design wins. Number two, increase our product portfolio while maintaining long-term support in our target markets. Number three, to identify and extend our reach into underserved and growing markets. Number four, to serve our customers and strategic partners. And number five, to remain focused on profitable growth and efficient use of our resources.

We believe we are poised for growth in future quarters as the global economic conditions improve. In 2011, we grew our total revenue by 7% while the semiconductor industry growth was flat and we grew our specialty DRAM and SRAM by more than 14% while those two memory markets declined from 2010 to 2011. We believe these results show the value of our specialty memory strategy, and as we continue to successfully execute on our objectives, we believe we'll continue to gain market share and build an even stronger business. We remain committed to achieving that goal.

We'll take your questions now.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Daniel Berenbaum, MKM Partners.

Daniel Berenbaum - *MKM Partners - Analyst*

Scott, I'm actually going to go to something you just talked about, which is growing your revenue despite the market shrinking and if I look at where other semiconductor companies are broadly guiding December quarter revenue, everybody seems to be going back to sort of Q4 '09 or Q1 '10 levels and you're well above that. So can you talk about what exactly has been driving that revenue growth? Is it because you have folks like Samsung exiting the market or is it other factors?

And then along those same lines, while you're talking about a SDRAM what percent market share does Samsung have right now, so how much potential market share is there for you to gain over the course of the next few years?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Let me answer the first question. When you look at our revenue overall, it's a combination both from the end markets that we're supporting as well as the products that we keep introducing. And the combination there, when you look at really the segregation or segmentation of our markets, we're really focused on four different markets, each which have their own cycles. So we're not subject to any one particular market. And each of those are about a quarter of our revenue or so.

We've seen strength in the comm space overall certainly with the build-out of increased wireless communications. Automotive continues to do well. Those end markets, especially with the increase in the amount of technology that's going into vehicles. And then our IMM market continues to do well also.

So balancing those with the fact that we've rolled out so many new products and particular really built out our DDR and DDR2 product lines. As we mentioned, we just introduced a 2-gig DDR2 and we're really starting to see a lot of traction in these new products now. So it's a combination where we're gaining share that is really driving it. So we think even though the semiconductor revenue looking forward is still guided to be - estimates are in the 5% range or so, we still think we'll be able to continue to outgrow the overall semi industry.

Now, on the SRAM side, the exiting of Samsung hasn't really impacted any of our short-term revenue. We think it'll start to have an impact in really late 2012 and 2013. We've estimated their revenue to be anywhere from about 15% to maybe as much as 20% of the overall market, which would put it somewhere around 150 maybe as high as 200 million. So, as we look forward, we think we're well positioned to start getting those design wins and picking up a fairly significant share of that market which we'll probably see again revenue wise, toward more the back end of 2012 going into 2013.

Daniel Berenbaum - *MKM Partners - Analyst*

Then John, just real quick. Without the deferred tax asset, what would your tax rate have been this quarter and then more importantly, how many more - what else do you have off balance sheet in terms of NOLs and deferred tax assets?

John Cobb - *Integrated Silicon Solution, Inc - CFO*

The tax rate this quarter would have been about 8% expense without the deferred tax asset. And we still have about 23 million in deferred tax assets that are fully reserved.

Operator

Chris Sigala, B. Riley & Company.

Chris Sigala - *B. Riley & Company - Analyst*

Just following up on your last comments about the Samsung exit, if you could peg down what your market share is today in the portion of the SM market that you cited Samsung as about 15% to 20% share. What would you say that is today?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Our share we estimate is probably 8% to 9% of the SRAM market. This is excluding pseudo SRAM.

Chris Sigala - *B. Riley & Company - Analyst*

Okay. And is there any sort of general guidance as far as where you see that share going to as we go into 2013?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

No, we haven't really figured out what our guide should be. Clearly, we expect to gain a significant portion of Samsung's synchronous SRAM market that they're leaving behind. So right now we don't have numbers in terms of projections, but we do expect with the product lineup that we'll have, that 65-nanometer will be very competitive and then as we discussed, we're designing down to 28-nanometer which will give us very very competitive synchronous devices, high performance that'll be able to be quite competitive in that marketplace.

Chris Sigala - *B. Riley & Company - Analyst*

Last question, just on the design win at Si En and India, which was good to see, I guess what can you say as far as when we can expect revenue contribution from that and kind of how that affects your general outlook for Si En going forward?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

We think that'll be within two quarters, three quarters at the most we'll start to see revenue from that particular design win. And we're still working with - in India we're looking at two other design wins that we think we should be able to secure this quarter that also will be significant revenue going forward.

So the pieces of Si En where they continue to be very strong is in the audio amplifier market, but that market is fairly competitive so while we're shipping 50-plus million units a quarter, pricing there is in 4 or 5 cents is still a competitive environment. We continue to add new features, add new devices and we think we'll continue to see new design wins with it.

The place that we're more excited is what we call our fun light LED backlight. And what this is, is it's basically it's LED lighting drivers that'll go into cell phones, so it'll be more on the back side of the cell phone, or in some cases even a notebook or trying to work into white goods like refrigerators. It'll provide LED lighting that can be programmed to have different displays, it can read out a phone number that's somebody's calling. Or in one case, we may even have the logo of a particular company. So it's a variety of different things that we can do in terms of LED drivers that we think create a pretty unique opportunity for us. And as far as we can see in the marketplace, we're the only ones that are offering a similar product.

Operator

Jeff Schreiner, Capstone Investments.

Jeff Schreiner - *Capstone Investments - Analyst*

John, starting with you, can you talk about the 25% tax rate; is that a GAAP number and your offset? You said to get it to a non-GAAP of 5% and is it going to be 25% for the entire fiscal year '12?

John Cobb - *Integrated Silicon Solution, Inc - CFO*

The 25% is the estimated effective tax rate and that is a GAAP number, but included in that 25% is - once we set up the deferred tax asset, then we utilize that deferred tax asset and so it comes through as an expense. And of the 25%, that will represent about 20%, so on what I would call the cash tax expense is about 5%. So our expectation then when we report our non-GAAP result for the first quarter and thereafter, we will take out the 20% as a non-cash item, just as we took out the deferred tax credit that we got the September quarter.

Jeff Schreiner - *Capstone Investments - Analyst*

That's what I was trying to get around to was to see if there was going to be a tax offset in the non-GAAP number. Scott, when you look at the amount of high density revenues for SRAM today, can you kind of give us an idea of maybe where ISSI is and maybe what's that projection for fiscal 2012? But also just trying to get an idea about what's the difference, you know, the amount of contribution that you could grow in the ASP that ISSI may receive between a low density, low speed type SRAM product and high speed, high density product such as some of the quad products you've talked about today?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Today, as I've mentioned in the past, our high performance products, both 36 as well as 72-meg just have not been competitive. They're at 0.11 micron and we just haven't been able to really get much traction in terms of revenue with those. So, we've been designing new devices at 65-nanometer and even starting to look at eventually migrating those down to 28-nanometer as well.

So, from a revenue contribution standpoint right now we're sampling our 36-meg, we'll be sampling a 72-meg later this quarter, which they're in the $20-plus, even $30-$40 price range for some of these memories, where we think we'll be able to start getting significant contribution more toward the second half of 2012.

And looking forward, the segment, the high performance QDR DDR segment we estimate to be $400 to $500 million segment so this is where a lot of the opportunity will come from.

Jeff Schreiner - *Capstone Investments - Analyst*

Okay. Maybe Scott or John, either one of you could maybe talk about kind of where the end demand is right now in SRAM maybe versus inventory that's sitting at customers. How are you guys shipping to end demand right now in SRAM and how's that market looking? Is it seasonal, is it a little bit softer going into the December quarter? Any color you could give there?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

SRAM is a little bit soft. You can see even this last quarter our SRAM revenue was down. That was primarily for us caused by European slowness, so more the industrial space and then also a little bit in some of the communication space. And so we see some revenue this quarter seems to be a little bit weak as well based on some of the feedback we're getting from customers.

Jeff Schreiner - *Capstone Investments - Analyst*

How heavy Scott, is Micron playing in the legacy DRAM market and what opportunity would there be for ISSI if Micron was not participating as extensively, let's say a legal case sets them back to where they really have to pull out of the legacy DRAM market in any way, what would be the opportunities and how much is Micron putting their hands kind of backwards into that legacy market right now?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

On the size of it, they are clearly the leader, I would say, in the specialty memory market, so if they were to vacate or for some reason they didn't participate, the market opportunity would be in the hundreds of millions per quarter type of range. I don't have the exact numbers, but it would be quite significant.

We have seen Micron being a little bit more aggressive in some of the more legacy I would call it markets. We do see them being price competitive in some areas. They recently announced a 10-year supply guaranteed program, of which if customers pay a premium price, they'll get 10 years of guaranteed supply. When you compare that to our solution, we don't request premium price but we'll also have and we've always had the same guarantees to our customers. So, I think it's a little bit of a marketing program they're trying on some select products while to guarantee long-term supply while that's ISSI's overall strategy and what our customers look for when they design us in.

So we believe as we look at the market share overall we're gaining share and there continues to be some constrained supply overall, depending on the individual devices that customers are looking for.

Jeff Schreiner - *Capstone Investments - Analyst*

One last question, I appreciate letting me get these questions in here today, gentlemen. John, coming back to you, I didn't hear any commentary about the possible listing of the Taiwanese dollar and some of the headwinds there. Obviously for more than half the quarter it's been well above 30 in terms of the exchange with the US dollar. Just wondering what the negative impact was in this quarter to gross margin from the Taiwanese dollar and maybe what if any you're implying in the gross margin guidance for December?

John Cobb - *Integrated Silicon Solution, Inc - CFO*

Actually, the US dollar strengthened versus the Taiwan dollar at the end of or in the month of September, so in terms of a balance sheet impact, we actually down below the line got some foreign exchange gains of a couple of hundred thousand dollars. In terms of gross margin, sequentially it didn't really have much impact on our gross margin compared to the June quarter, mainly because the strengthening of the US dollar happened at the end of the quarter, so to the extent there was any benefit, it was left in inventory. It should help us going into the December quarter if the exchange rate stays where it is.

And overall, it's now about where it was a year ago, so we went through a dip and then came back up pretty significantly in the month of September, but we haven't seen, at least in the gross margin, that pick up yet. But it will be a positive factor in the December quarter and it's already been factored into our guidance.

Jeff Schreiner - *Capstone Investments - Analyst*

Okay. And would you expect, again, I know we're getting a little far here and I don't want to put anything into your - more just about the impact of a positive maybe tailwind, turning from a headwind to a tailwind here. It sounds like it maybe still doesn't have that much impact in December but if it was to stay constant for a full quarter maybe like December, would we get to see a little bit more of it by March as you run through a full quarter of that or is that a better way to look at things?

John Cobb - *Integrated Silicon Solution, Inc - CFO*

I would think that we would see most of it in the December quarter, assuming the exchange rate doesn't move much from where it is now. But as I said, that's already been factored into our guidance.

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

I think the key there too Jeff is that with the volatility that we've seen, we're playing fairly cautious in terms of what we expect the dollar may be doing.

Operator

Rajivindra Gill, Needham & Company.

Rajivindra Gill - *Needham & Co - Analyst*

Congrats on good results. Could you maybe describe a little bit about the competitive landscape in SRAM as well as in specialty DRAM market? Any market share shift you saw in SRAM and maybe characterize your positioning in the specialty DRAM, that would be helpful.

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Sure. I would say overall in the SRAM market we do see Cypress continue to be fairly aggressive in the market. We've seen customers looking for alternative supply, based on the current legal battle that's occurring between both GSI and Cypress, so we see opportunity there in the future as well.

And then with Samsung vacating, we think that's going to create a fairly significant opportunity for us to be able to gain share in that segment. As I mentioned, we're introducing - we do have a very good synchronous product line but we're also introducing new quad performance synchronous SRAM both 36 as well as 72-meg, which will really give us a very very competitive solution. So we think that will really get us into a position to start gaining share overall in the synchronous high performance memory market.

On the DRAM side, it continues to be what I consider just a constant competitive environment. Some of the smaller density devices we're seeing competitors are really not filling some of those sockets, so that's been an opportunity for us to gain share. Many of our customers that need long-term supply, continue to turn for us. So, we continue to get designed in, we continue to pick up opportunities for growth. And there I'd say we're seeing different competitors. Micron principally is our primary competitor in specialty memory and they have been a little bit more aggressive lately, I think as they're losing margin in the primary PC memory supply, so they're looking for other areas to try to pick up revenue.

Rajivindra Gill - *Needham & Co - Analyst*

What do you think your overall market share is in specialty in DRAM and what do you think your market share is in the automotive and communication DRAM sectors?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

In overall specialty we're probably still in the 5%-6% range, based on what we estimate. We estimate the overall specialty to be about a $5 billion market. In terms of automotive and comm, I'm trying to remember the exact numbers. We're running about 10% for automotive and communication is very large, so we're in the single digits still.

Rajivindra Gill - *Needham & Co - Analyst*

And just kind of drilling down on the Samsung opportunity, 150 to 200 million is their share; how much of that do you think are kind of last time buys at tier-1 networking equipment suppliers that will have last multiple years? How much do you think is reasonable that's going to be up for grabs and of that amount, how much do you think Cypress will get and try to quantify the overall potential revenue opportunity in a more realistic fashion?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Good question. So the few things that we haven't really gotten clarity on with Samsung is if this is related to all customers or are they going to support key customers. If they support probably a few of the big specialty telecom customers longer-term, that's probably 50 to as much as $70 million just for two or three big customers there that they could be supporting. So, it could be as much as a third to half of the overall opportunity.

So if you subtract that out, let's say it's 150 million, 50 to 70 million of it they continue as key accounts, that would leave anywhere from 70 to 100 million remaining. My guess is probably in the market right now, GSI is the leader in terms of SRAM performance, but overall Cypress I think has the largest share in terms of SRAM today. So between the three of us, I definitely think we'll all get a fairly substantial part of it.

Operator

(Operator instructions) Austin Hopper, AWH Capital.

Austin Hopper - *AWH Capital - Analyst*

You talked about changing market share in SRAM and you mentioned the legal situation between Cypress and GSI. It sounds like GSI had kind of beaten Cypress to the marketplace and so Cypress is suing them. Would you be concerned that they would sue you as well if you gain share?

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

It's always something that we need to be concerned about. It's possible. Unfortunately in the US right now it's such a litigious environment that any type of lawsuits are quite common. We think we have a very very good patent portfolio. We've been in the SRAM business as you know since 1995. That was our original core industry. So, we believe we've had a number of patents in SRAM and DRAM we have over 70 patents. We think we have very strong protection. I don't know the details of the legal battle, but overall our technology has been developed internally and so we really don't have any overall worry in terms of somebody else contending that we may be using their technology. But in this environment, you know, anybody can sue anybody.

Operator

There are no further questions remaining at this time.

Scott Howarth - *Integrated Silicon Solution, Inc - President & CEO*

Thank you for participating in this call. We plan to participate in two upcoming investor conferences. We'll present at the Tech America Classic Conference in San Diego on November 7th and at the RW Baird Technology Conference in San Francisco on November 29th. We hope to see you at these events. Have a good evening.

Operator

This does conclude today's conference call. We thank you for your participation and have a wonderful day.
