

SILICON STORAGE TECHNOLOGY INC
Form DEFA14A
March 16, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

SILICON STORAGE TECHNOLOGY, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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- (1) Title of each class of securities to which transaction applies:

- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

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- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

Explanatory Note

Attached is a presentation given by Silicon Storage Technology, Inc. to RiskMetrics Group on March 16, 2010.

Silicon Storage Technology, Inc.
Silicon Storage Technology, Inc.
www.SuperFlash.com
Overview of SST Proposed Sale to Microchip
March 16, 2010

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Forward-Looking Information Is Subject to Risk & Uncertainty

Statements about the expected timing, completion and effects of the proposed merger, and all other statements in this presentation other than historical facts, constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The audience is cautioned not to place undue reliance on these forward-looking statements, each of which is qualified in its

entirety by reference to the following cautionary statements.

Forward-looking statements speak only as of the date hereof and are based on current expectations and involve a number of assumptions, risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. A number of the matters discussed herein that are not historical or current facts deal with potential future circumstances and developments, in particular, whether and when the transactions contemplated by the merger agreement will be consummated. The discussion of such matters is qualified by the inherent risks and uncertainties surrounding future expectations generally, and also may materially differ from actual future experience involving any one or more of such matters.

Such risks and uncertainties include: any conditions imposed on the parties in connection with consummation of the transaction described herein; approval of the merger by our shareholders; satisfaction of various other conditions to the closing of the transactions described herein; and the risks that are described from time to time in our reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2008 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.

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Additional Information and Where To Find It

In connection with the proposed merger with Microchip, Silicon Storage Technology, Inc. filed a definitive proxy statement with the Securities and Exchange Commission (the SEC) on March 1, 2010.

INVESTORS AND SHAREHOLDERS ARE ADVISED TO READ THE DEFINITIVE PROXY

STATEMENT AND OTHER RELEVANT DOCUMENTS FILED WITH THE SEC BECAUSE THEY CONTAIN IMPORTANT INFORMATION ABOUT SST AND THE PROPOSED TRANSACTION WITH MICROCHIP. The definitive proxy statement was mailed to Silicon Storage Technology, Inc. shareholders on March 3, 2010. Investors and shareholders may obtain a free copy of these documents and other documents filed by Silicon Storage Technology, Inc. at the SEC's web site at www.sec.gov and at the Investor section of our website at www.SST.com. The proxy statement and such other documents may also be obtained for free from Silicon Storage Technology, Inc. by directing such request to Silicon Storage Technology, Inc., Attention: Ricky Gradwohl, 1020 Kifer Road, Sunnyvale, California 94086, Telephone: 408/735-9110.

Silicon Storage Technology, Inc. and its directors and executive officers may be deemed to be participants in the solicitation of proxies from its shareholders in connection with the proposed merger with Microchip. Information about Silicon Storage Technology, Inc.'s directors and executive officers is set forth in Silicon Storage Technology, Inc.'s proxy statement on Schedule 14A filed with the SEC on April 30, 2009. Additional information regarding the interests of participants in the solicitation of proxies in connection with the proposed merger with Microchip is included in the definitive proxy statement with respect to the proposed merger with Microchip that Silicon Storage Technology, Inc. filed with the SEC on March 1, 2010.

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Microchip Transaction Provides Superior Shareholder Value

Per-Share Consideration:

Total Value

(1)

:

Valuation Premium:

Strategic Buyer:

Transaction Timing:

Merger Agreement Terms:

Estimated Closing Date:

\$3.05 Per Share Cash Offer

No Financing Contingency

\$300.9 Million

64.0%

to \$1.86 (Nov. 12, Prior to Prophet Equity Offer)

45.2%

to \$2.10 (Nov. 13, Prophet Equity Bid)

134.6%

to \$1.30 (52-Week Low, Prior to Prophet Equity Bid)

Microchip Technology, Inc.

Market Capitalization: \$5.2 Billion; Net Cash: \$1.2 Billion

SST Shareholder Vote: April 8, 2010

25.5% of Shareholders Committed to Vote for Highest-Priced Deal

Specific Performance

Straightforward Strategic Cash Merger

No further regulatory or HSR approvals required

(1)

Based on Diluted Shares Outstanding as of 2/28/2010: 98,655,330 and excluding additional 19,148,150 shares issued to Micro

The Microchip transaction is the culmination of a 1½

years-long strategic review process and

extensive go-shop period involving outreach to 145 prospective acquirers

SST's Board believes that Microchip's increased \$3.05 per-share cash offer provides shareholders with greater and more certain value than any other alternative the Board considered

SST's Board of Directors recommends shareholders vote **FOR**

the \$3.05 Microchip Offer

April 8, 2010

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Involved Parties

Business Description:

Exchange & Ticker Symbol:

Market Capitalization

(1)

:

Date of IPO:

Employees:

NOR and NAND flash
memory provider

NASDAQ: **SSTI**

\$303.9 Million

November 21, 1995

576

Supplier of microcontroller,
analog and memory products

NASDAQ: **MCHP**

\$5.2 Billion

March 19, 1993

4,895

(1)

Based on Diluted Shares Outstanding as of 2/28/2010: 98,655,330 and excluding additional 19,148,150 shares issued to Micro

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Company Overview

Company Overview

Small/Micro-Cap company (\$165M NOR Revenue)

#5 Player in NOR Memory Market with 4% Market Share

Continued R&D investment necessary to refresh or diversify outdated product portfolio,

and to support both memory and licensing businesses

Historic product diversification efforts: All-in-One Memory, FlashMate, and Melody Wing product lines (*all ended*)

Historically struggles with profitability; GM ~30% makes R&D difficult to subsidize

Illiquid stock with low trading volume and no research coverage

Public company costs

No manufacturing facilities as opposed to larger competitors

As part of the strategic review process, the Board determined a sale would provide greater and more certain value to shareholders than a liquidation or buyback

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Highly Competitive Market

Large-scale competitors all with fab capabilities

Steadily

declining

ASP;
SST
experienced
ASP
CAGR
of
(20.1%)
over
the
last
3
years

Intel and STMicroelectronics exited NOR Flash product line in Mar. 09 with sale of Numonyx (#1 Player, \$1.5B Revenue) to Micron

AMD and Fujitsu also divested NOR Flash product line with formation of **Spansion** (#2

Player, \$1.3B Revenue), which filed for Chapter 11 Mar. 09

Vulnerability to macro trends and volatility

NAND encroaching on high densities (Samsung, SanDisk); intense competition on low densities from Taiwanese players (Macronix, Winbond)

Market Overview

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Process Designed to Maximize Shareholder Value
Provides Significant Premium to Public Market Valuation

(1)

: 64.0%

-

Premium to Prophet Equity Bid of \$2.10: 45.2%

-

Premium to 52-week low market price of \$1.30: \$134.6%

Thorough Review of Alternatives to Maximize Value: 2008-2010

-

Extensive private sale process (18 financial & 15 strategic potential buyers; Jun. 08

Nov. 09) followed by exhaustive

public go-shop process (86 financial & 59 strategic potential buyers)

-

Considered alternative transactions including buy-side, stock repurchase/Dutch Auction, divestiture, dividend & liquidation

-

Considered memory space consolidations: Intel-ST spin-off Numonyx, sold to Micron; AMD-Fujitsu spin-off Spansion, filed for Bankruptcy Mar. 09

Extensive Auction & Go-Shop Process: Contacted 145 Potential Acquirers

-

59 Strategic & 86 Financial Potential Acquirers Contacted

-

NDA's and extensive discussion with 35 Potential Acquirers

-

5 Excluded Parties Deemed and 5 Indications of Interest received for final negotiations

-

4 Final Bids Received, and full contract negotiations commenced

Microchip Deal Provides Superior Value and Terms to SST Shareholders

-

Unanimously approved by Independent Strategic Committee

-

All-cash offer, no financing contingency, 3.5% break-up fee, no 13e-3 filing

-

3-week path to delivering \$3.05 per share in cash to SST shareholders as compared to 2-step, multi-month process for \$3.00 per share in cash with [Cerberus/Dialectic](#)

alternative

-

Eliminates shareholder exposure to a micro-cap company with no research coverage and a weak product portfolio in a competitive market

-

Product portfolio requires an overhaul that would be extremely expensive from an R&D perspective alone

-

Voting agreement establishes a level playing field by neutralizing one bidder's ability to prevent a significant percentage of shareholders from supporting any alternative transaction regardless of whether it provided superior value

(1)

Based on Stock Price of \$1.86 Prior to Announcement of Prophet Equity Bid on November 12, 2009

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Board Process Overview

Well-advised, independent, thorough process

Established Strategic Committee of independent directors who investigated all reasonable alternative transactions to maximize shareholder value, including buy-side, stock repurchase/Dutch auction, divestiture, dividend, and liquidation.

Strategic Committee retained independent financial and legal advisors (Houlihan

Lokey
and Shearman & Sterling LLP)

Conducted
thorough
strategic
alternatives
review
process
commenced

May
12,
2008
with
70+
meetings
over
1½
years
Why this approach?

Arm s
length
auction
process
and
negotiation
to
allow
for
best
price
to
come
forward
Transparency
of
auction
process
allows
shareholders

to
make
the
best
and
most
informed
decision

Public nature of Go-Shop process increased interest from both strategic and financial buyers

Number
of

bids
and
number
of
bid
rounds
validates
auction
structure
and
the
Board
of
Directors
precision
in
negotiating
the highest price and best terms for its shareholders
Original \$2.10 offer increased to \$3.05 over the course of three
months with a carefully managed Go-Shop process
Strategic Buyer (Microchip, \$5 Billion Market Cap, \$1.2 Billion Net Cash)
19.9% Share Issuance levels playing field with bidder who precluded shareholders from voting for the highest bid.
The Board of Directors and Strategic Committee fully negotiated voting arrangements and limitations on Microchip's
profit on the block of shares
Specific performance, no financing contingency, no regulatory approvals required, and fast closing schedule (Shareholder
Meeting April 8, 2010)

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Flash Memory Market Decline

(1)

10

0

1,000

2,000
3,000
4,000
5,000
6,000
7,000
2007
2008
2009
2010
2011
2012
2013
2014
2015
\$0.40
\$0.50
\$0.60
\$0.70
\$0.80
\$0.90
\$1.00

NOR Flash Units

ASP
0
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000
9,000
10,000
2007
2008
2009
2010
2011
2012
2013
2014
2015
\$2.0
\$3.0
\$4.0
\$5.0
\$6.0

NAND Flash Units

ASP
\$230
\$316
\$259
\$343
\$496
\$614
\$545
\$851
\$1,095
\$0
\$200
\$400
\$600
\$800
\$1,000
\$1,200
2007
2008
2009
2010
2011
2012
2013
2014
2015

Low/ Medium Density (256KB - 64MB)

Forecast Unit Sales & ASP

NOR Flash Market Decline (\$ MM)

(1)

Source: Web Feet Research.

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Highly Competitive NOR Flash Industry

(1)

Other

6%

Samsung

21%

Macronix

8%

SST

4%

Spansion

29%

Numonyx

32%

2009 NOR Flash Market Share

2009 NOR Flash Memory Revenue by Company

\$150.9

Spun-Off of Intel & ST (exiting NOR market)

Acquired by Micron (Mkt. Cap: \$8.3B) as of Feb. 10

Spun-Off of AMD & Fujitsu (exiting NOR market)

Filed for Chapter 11 Protection on Mar. 1, 2009

(1)

Source: Web Feet Research.

\$165

\$1,340

\$981

\$1,473

\$394

\$0

\$200

\$400

\$600

\$800

\$1,000

\$1,200

\$1,400

\$1,600

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Competitive Landscape

4/8/16 Mb

32 Mb

64 Mb

128 Mb

256 Mb
> 512 Mb

Spansion
Numonyx

Samsung
SST

Macronix
Winbond

Atmel
AMIC

EON
ESI

KH
PMC

Spansion
Numonyx

Samsung
SST

Macronix
Winbond

Atmel
Spansion

Numonyx
Samsung

SST
Macronix

Winbond
Atmel

Spansion
Numonyx

Samsung
Macronix

Spansion
Numonyx

Samsung
Spansion

Numonyx
Higher density competitive landscape faces encroachment from NAND

technologies

Heavy price pressure caused by competition between Spansion and

Numonyx

Lower density products quickly become commodities

High competition and rapid ASP declines

NAND Encroachment

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Products Overview

NANDrive

Based on NAND Controller

Product

Small ATA solid-state drive
serves embedded applications

Shipped in a wide range of product
applications

Low-Density
Flash Memory

Parallel and serial product
lines

Small, thin packaging
SuperFlash

®
Technology

Embedded flash technology

Shipped in a wide range of
product applications

Reliable flash memory
WiFi Power
Amplifiers

High-volume WiFi Power
Amplifier Supplier

Adopted by a number of
leading chipset providers

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Operating and Net Income

Trend Analysis

(1)

\$1.5

(\$7.5)

\$3.3
(\$5.9)
\$4.1
(\$8.3)
(\$4.6)
\$3.1
\$6.0
(\$1.6)
\$0.8
\$6.2
\$8.0
\$7.6
\$3.0
(\$5.9)
(14.1%)
4.2%
2.1%
(11.8%)
(13.0%)
4.4%
(7.1%)
(5.6%)
2.9%
5.6%
(1.6%)
0.8%
5.3%
6.9%
6.9%
3.1%
(\$20.0)
(\$15.0)
(\$10.0)
(\$5.0)
-
\$5
\$10
\$15
Q1'06
Q2'06
Q3'06
Q4'06
Q1'07
Q2'07
Q3'07
Q4'07
Q1'08
Q2'08
Q3'08
Q4'08

Q1'09
Q2'09
Q3'09
Q4'09
-20%
-15%
-10%
-5%
0%
5%
10%
Operating Income
Operating Income %
Operating Income vs. Operating Margin (Q1 06
Q4 09A)
(\$8.3)
\$1.9
\$5.9
\$8.0
\$6.0
\$1.8
(\$0.3)
\$8.3
\$2.8
\$1.7
(\$12.5)
\$4.9
(\$9.6)
\$3.4
(\$5.7)
\$2.1
5.4%
3.2%
6.9%
5.1%
1.8%
(0.3%)
(11.4%)
5.3%
(16.5%)
2.7%
2.1%
7.7%
2.6%
(21.5%)
(9.9%)
3.0%
(\$20.0)
(\$15.0)
(\$10.0)

(\$5.0)

-

\$5

\$10

\$15

Q1'06

Q2'06

Q3'06

Q4'06

Q1'07

Q2'07

Q3'07

Q4'07

Q1'08

Q2'08

Q3'08

Q4'08

Q1'09

Q2'09

Q3'09

Q4'09

-30%

-20%

-10%

0%

10%

20%

30%

Net Income

Net Margin

Net Income vs. Net Margin (Q1 '06

Q4 '09A)

(1)

\$ in Millions

Operating/Net Margins Consistently Struggle with Profitability

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Stock Performance Since Original Transaction

(1)(2)

SUN: 66.7%

(1)

Selected

companies
include:
Infineon
Technologies,
Elpida
Memory
Inc.,
SanDisk
Corp.,
Integrated
Silicon
Solutions
Inc.,
Toshiba
Corp.,
Imation
Corp,
Entorian
Technologies
Inc.,
and
Netlist
Inc.

(2)

Source: Bloomberg.

S&P 500: 5.4%

NASDAQ: 9.8%

Nov. 13, 2009: Original Transaction

Announced Before Market Open

Full Auction & Go-Shop Process have achieved a significant increase in value

11/13/09

2/3/10

2/23/10

3/8/10

\$2.10

Prophet Equity

agrees to

acquire SST

\$3.05

In response to

Cerberus

competing bid,

MCHP raises its

bid price

Go-Shop Period

\$3.00

In response to a

competing

bidder, MCHP

raises its bid

price

\$2.85

After the Go-Shop
period and
assessment of final
bids, MCHP
announces its bid

80%

90%

100%

110%

120%

130%

140%

150%

160%

170%

180%

11/23/09

12/5/09

12/17/09

12/28/09

1/10/10

1/21/10

2/14/10

Index of Selected

Companies: 4.4%

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Comparative Trading Volume

(1)

0

5,000,000

10,000,000

15,000,000
20,000,000
25,000,000
30,000,000

SST
IFX
ATML
SNDK
TOSHIBA

(1)

Source: Bloomberg.

Micro-Cap Stock Without Research Coverage

Average Daily Trading Volume

CY'06

CY'07

CY'08

CY'09

906,420

903,910

460,790

304,790

XTRA:IFX

8,776,700

4,049,540

2,872,450

2,712,060

ATML

9,347,460

7,977,710

4,801,570

4,496,480

SNDK

11,296,520

9,895,590

10,425,200

7,861,760

25,216,000

28,511,330

24,902,730

62,869,330

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Transaction Key Events Timeline

(1)

Based on Diluted Shares Outstanding as of 2/28/2010: 98,655,330 and excluding additional 19,148,150 shares issued to Micro

Date

Event

May 12, 2008

SST's Board of Directors establishes the Strategic Committee to review and evaluate a range of strategic transactions.

June 6, 2008

The Strategic Committee selects Houlihan

Lokey

to serve as strategic and financial advisor.

October 30, 2008

The Strategic Committee retains Shearman & Sterling LLP as legal advisor to the Strategic Committee.

May 4, 2009

The Strategic Committee does not recommend Prophet Equity's \$1.82 per share bid to the Board of Directors due to value considerations.

November 13, 2009

Prophet Equity agrees to acquire SST for \$2.10 per share, with a

go-shop provision and 2.0% Break-Up Fee during the Go-Shop

(3.5% afterwards)

January 20, 2010

After reaching out to 145 potential partners with the help of Houlihan

Lokey, the Board of Directors considered preliminary bids

and deemed five excluded parties, from which three final bids were received.

February 3, 2010

The Board of Directors votes to approve Microchip's \$2.85 per share offer at a transaction value of \$284.0 Million.

February 23, 2010

In response to a competing bid entertained by the Board of Directors, Microchip raises its offer to \$3.00 per share and amends the merger agreement. The Board approves the change, resulting in a transaction value of \$295.0 Million.

March 8, 2010

In response to a competing bid from a Cerberus Capital, Microchip raises its offer to \$3.05 per share and purchases SST newly issued

shares

equal

to

19.9%

of

outstanding

common

shares

for

a

total

transaction

value

of

\$300.9

Million

(1)

.

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Roadmap to Completion

Strategic Committee Established

Merger Discussions Held with 33 Parties

Prophet Equity Merger Agreement

45-Day Go-Shop Period & 145 Parties Contacted

Five Excluded Parties Designated
Diligence and Discussion with Five Excluded Parties
Microchip Merger Agreement Executed
Preliminary Microchip Proxy Filed
Definitive Microchip Proxy Filed
Proxy Supplement Filed
Shareholder Meeting
Estimated Closing
May 12, 2008
June 2008
November 2009
November 13, 2009
November 13, 2009
December 28, 2009
December 29, 2009
December 29, 2009
February 2, 2010
February 3, 2010
February 17, 2010
March 1, 2010
March 16, 2010
April 8, 2010
April 8, 2010

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Microchip Agreement Maximizes Shareholder Value

The SST Board of Directors recommends that shareholders

vote **FOR**

the proposed transaction today.

The Microchip agreement was unanimously approved by the Independent Strategic Committee and

is the culmination of a 1½
years-long strategic review process and extensive go-shop period
Attractive valuation at premium to historical trading range and peer group multiples
Potential operational challenges as a standalone public company present execution and valuation
risks relative to significantly larger competitors
Microchip was the highest bidder after the Go-Shop period in a competitive auction situation
Favorable terms achieved:
Specific performance, all Cash, no financing contingency, fast closing
time and 25.5% of shareholders committed to vote for the highest
bidder
3-week path to \$3.05 cash instead of 2-step, multi-month path to \$3.00 cash, no 13e-3 filing
and no pink sheet or stub stock as compared with Cerberus/Dialectic alternative transaction
Immediate and certain cash value to shareholders with full guarantee and specific performance
provided by Microchip (\$5.2 Billion Market Cap & \$1.2 Billion Net Cash)
Three Weeks to Closing
April 8, 2010

Silicon Storage Technology, Inc.
Silicon Storage Technology, Inc.
www.SuperFlash.com
Thank You!