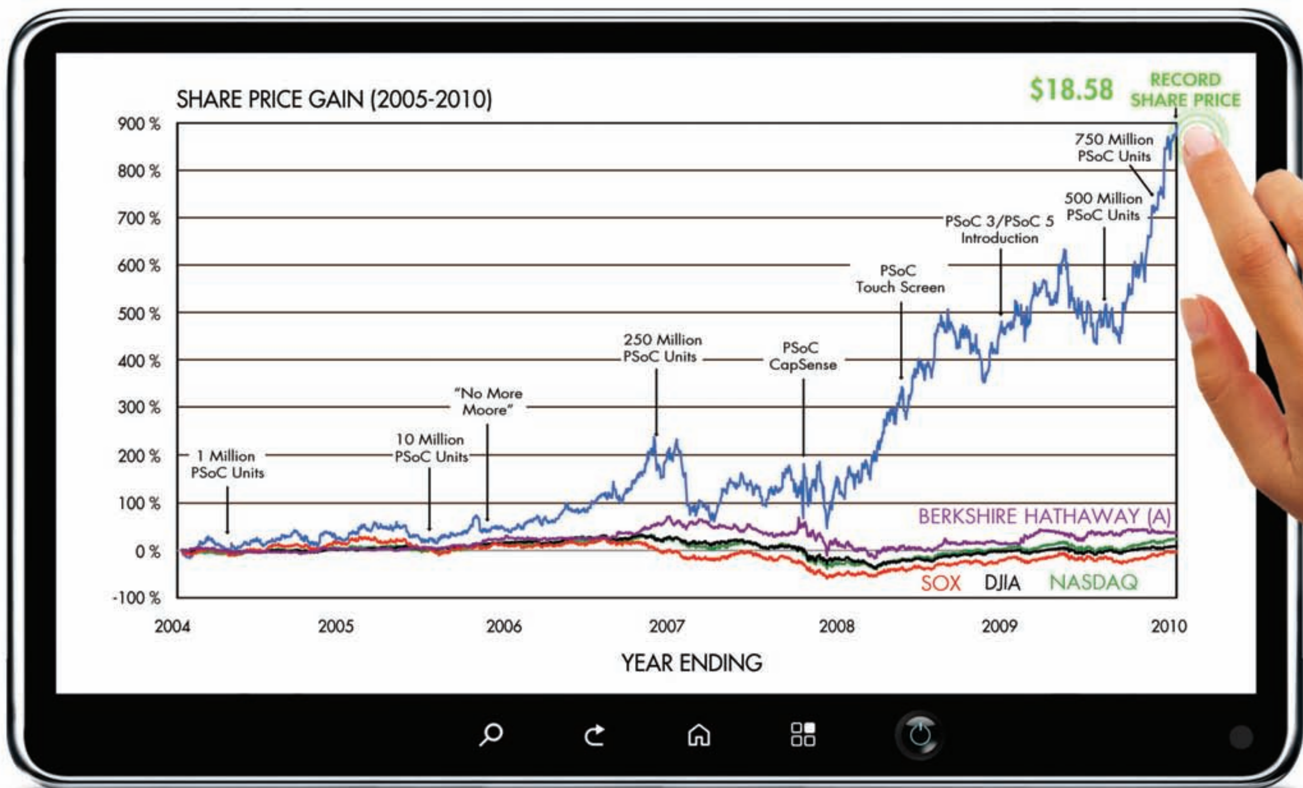
CYPRESS

2010 ANNUAL REPORT

"Barring a double-dip recession, we expect a strong 2010 with significant revenue growth and solid profitability."
T.J. Rodgers, 2009 Annual Report



CYPRESS

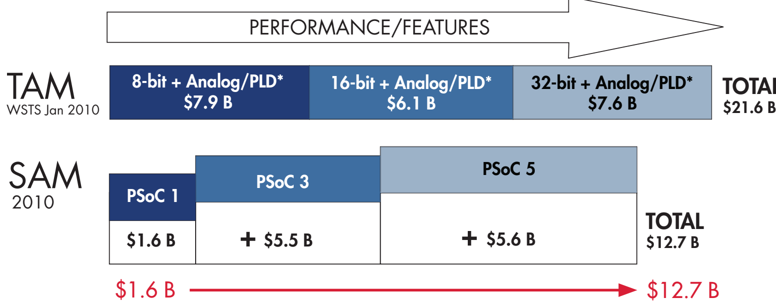
PERFORM

PSoC® 3: RECORD DESIGN WINS

With an industry-standard, 8-bit processor, and high-precision, 20-bit analog, Cypress's PSoC 3 solution addresses the upper-end of the market for 8-bit products and one-half of the 16-bit market, adding $5.5 billion in addressable markets (below left). PSoC 5 integrates the 32-bit ARM® Cortex™-M3 processor, opening another $5.6 billion in markets. The served market for all PSoC products now totals $12.7 billion – nearly 8x the original PSoC 1 market. Consequently, five quarters after its introduction—at a similar point in its development as a family—PSoC 3 is generating design wins 3x faster than PSoC 1 did (below right).

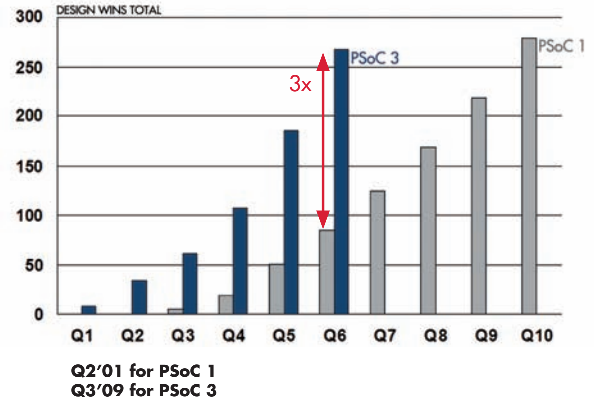
PSoC SERVED AVAILABLE MARKET

Includes Analog, Logic, MCUs, Touch



* Portion of Standard Analog/Logic market accessible to PSoC.

PSoC 3 RAMPING 3x FASTER THAN PSoC 1



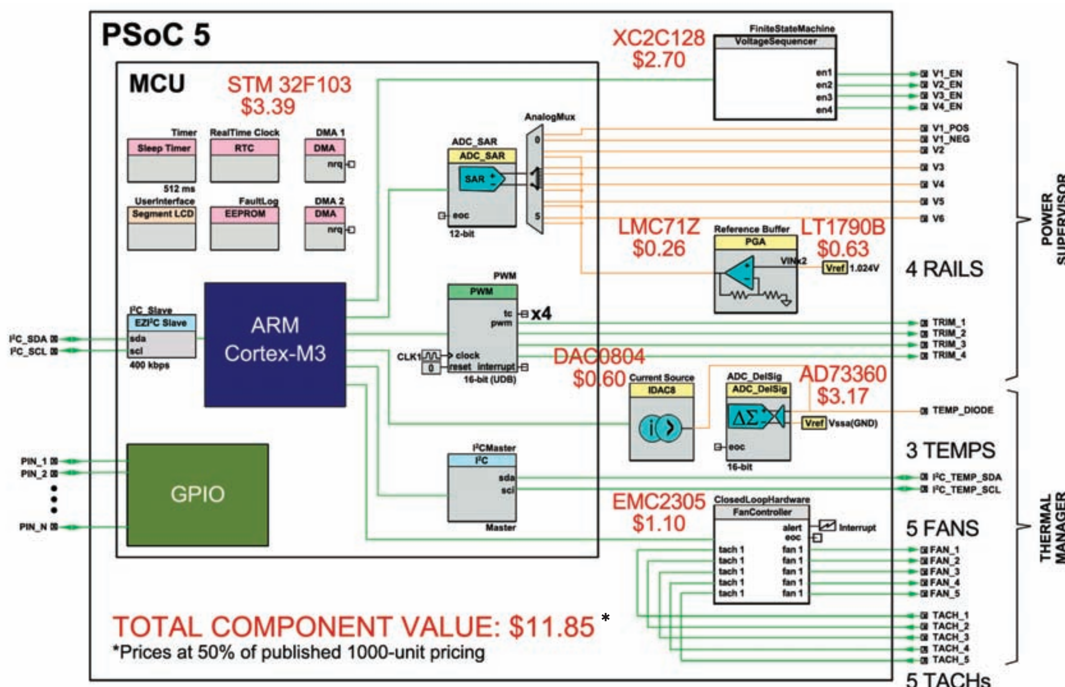
ROUTER SYSTEM DESIGN

This is a screen shot from PSoC Creator, the Integrated Development System (IDE) design software for PSoC 5. The IDE has captured a complete thermal and power management system design for a router, in which three temperature sensors control five fans by monitoring fan tachometers, and all power supplies are monitored and switched on and off in the proper sequence.

Prior to PSoC, the system might have been designed using seven discrete chips, whose part numbers are annotated in red: an ARM-based, 32-bit microcontroller from ST Microelectronics (ST32F103), a voltage sequencer in a programmable logic chip from Xilinx (XC2C128), a fan controller chip from SMSC (EMC2305), a digital-to-analog converter (DAC0804) and programmable gain amplifier (LMC71Z) from National Semiconductor, a voltage reference from Linear Technology (LT1790B), and a 16-bit analog-to-digital converter (AD73360) from Analog Devices. However, in this PSoC Creator design, all of the system blocks have been implemented by programming the analog and digital resources on a single PSoC 5 chip. If those blocks were purchased separately as seven discrete integrated circuits, their cost in volume would be approximately $11.85, well above the price of the PSoC 5 chip alone.

More importantly, the capability to design the system in a single software environment and to debug it on a single chip—rather than seven chips from six vendors—dramatically improves our customers' time-to-market.

ROUTER: THERMAL AND POWER MANAGEMENT SYSTEM



FELLOW SHAREHOLDERS:*

INTRODUCTION

In the last sentence of Cypress's 2009 Annual Report, I wrote that "barring a double-dip recession, we expect a strong 2010 with significant revenue growth and solid profitability." There was no second dip, and Cypress performed well in 2010 with 32% revenue growth to $884 million. That growth, combined with our diligent, continuous cost reduction efforts, yielded a 2010 profit before tax (PBT) of 22.9%, up from 2.9% in the recession year of 2009. Our 2010 EPS of $0.94 also eclipsed the $0.10 we reported in 2009. These profit trends demonstrate excellent leverage: relative to 2009, 84.5% of our incremental revenue in 2010 fell through to PBT.

The products driving our revenue growth were our Static Random Access Memories (SRAMs)—both general-purpose SRAMs for consumer devices and high-performance SRAMs for the latest round of Internet construction—and PSoC, which shipped its 828 millionth unit at year-end, driven by a surge in cell phone touchscreens. We expect PSoC to sell its billionth unit in mid-2011. PSoC also produced $208 million in revenue in 2010, a record we expect to beat in 2011 by 50% or more.

In 2009, our share price set a record of $11.27. In 2010, our share price set another record of $18.58. As a veteran of numerous semiconductor business cycles, I am enjoying our current success, but remain wary of unknowns. Consequently, we are constraining the growth rate of our operating expenses to well below the anticipated growth rate of our revenue. Thus, if revenue growth does not materialize, our margins will remain in line.

Constraining costs to grow much more slowly than revenue creates a continuous stream of "must-have" hiring demands. We handle these requests with a business process known as the "Hiring Auction," which I run weekly. In this process, we do not automatically replace people that leave the corporation. We instead use the openings created by attrition to allow the managers with the most pressing business needs to hire without adding incremental employees. In 2010, we hired just 10 net new employees, but actually transformed the workforce by hiring 458 new employees, while losing 448 employees through attrition, divestiture and reductions in force. This is the primary reason why I described our cost-reduction effort as "diligent."

FINANCIALS

Our revenue and PBT for the last three years are shown in *Figure 1*.

REVENUE AND PROFIT BEFORE TAX (PBT)

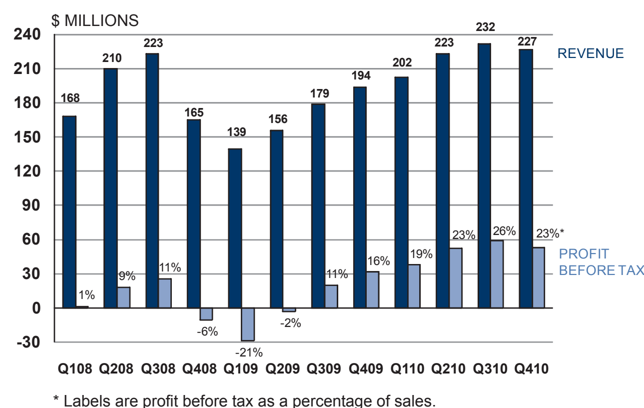


Figure 1. Cypress's revenue dropped to only $139 million in Q1'09 due to a sharp recession, but recovered quickly due to a rapid ramp in PSoC sales. This momentum continued into 2010, when we reported revenue of $884 million, up 32% from 2009. The revenue ramp, along with our ongoing cost controls, drove Cypress's 2010 pretax profit (PBT) to 22.9%. Note that in Q2'10, we reported $223 million in revenue with 23% PBT, while in Q3'08, we reported $223 million in revenue with 11% PBT, a 12 percentage point improvement in profitability with the same revenue.

Starting with the 2009 plan, Cypress chose to use PBT as its lynchpin financial index. We created a "PBT factor" that multiplied the bonuses of every Cypress employee. The 2010 PBT factor was linear, paying 100% (full bonus, as determined by various plans) when Cypress reported 20% PBT, and 0% (no bonus) when Cypress reported 10% PBT or less. Based on our 2010 performance, we raised the bar. For the 2011 plan, the PBT factor is 100% when Cypress reports 25% pretax profit and 0% when Cypress reports 15% pretax profit or less.

Our financial model for operating expenses—R&D, G&A, and Sales and Marketing—is 30% of revenue.

* This report is written so that shareholders can read the introduction, the figures and captions, and the conclusion—and get 80% of the information.

Over the past few years, we have driven our operating expenses down from 45% of revenue to 36% of revenue, and have a plan to gain another percentage point or two in 2011. The primary controllable components of operating expense are the number of sites and buildings we maintain, the items we purchase, and the people we employ.

Sites: In a deal that was consummated in 2010 and closed in early 2011, we sold our Mechelen, Belgium-based Image Sensor Business Unit (ISBU) to ON Semiconductor for $31 million. We acquired ISBU to enter the cell phone image sensor market. I worked directly on its chip projects and became convinced that ISBU's core competency—designing high-performance image sensors for special applications such as satellites and machine vision—was not sufficient to achieve profitable entry into the cell phone image-sensor market, which itself became highly commoditized after we acquired ISBU in 2004. ISBU also contributed a disproportionate level of operating expenses relative to its revenue.

As a global company with geographical distribution of not only sales and marketing, but also manufacturing, R&D and G&A, Cypress maintained 69 sites worldwide at year-end 2010, many of them one-person sales offices. We've already driven that number down to 64 and plan to drive it down to 50 during 2011.

Buildings: The tax and regulatory environment makes manufacturing in California economically unattractive. Over the years, we have shut down Cypress's original wafer fabrication plant and its California-based assembly and test operations, and sold the buildings. In 2010, we announced the donation of one of our San Jose buildings to the Second Harvest Food Bank to consolidate our headquarters site into just two buildings with 531 people, down from a peak of six buildings and 1,111 people in 2002. Turning a once-productive Silicon Valley R&D building into a food bank for the hungry is a near-perfect metaphor for California's current economy. Our primary R&D sites are now consolidated in San Jose; Lynnwood, Washington; and Bangalore, India.

People: At year-end 2010, despite 32% revenue growth, we added only 10 net new employees to bring us to 3,560 employees. By comparison, Cypress employed 4,056 people at year-end 2005, when our revenue was smaller than it is today. Our employment will grow modestly in 2011, but at a rate well below that of revenue. In 2009, we went through a delayering exercise and reduced the number of VPs at Cypress from 80 to 55, a number that will grow modestly, partly due to the management teams needed to run our four internal startups.

The losses of these startups subtract directly from our reported P&L statement. Our quarterly investment in these companies averages $0.03 per share, or about $6.2 million, almost all of which is attributable to operating expense. We believe that these investments will pay off for Cypress shareholders in the future. Indeed, a startup is an excellent way to invest in a new business, because the management team is fanatical about controlling operating expenses to minimize the share-count dilution inherent in raising funds from its primary venture capitalist—Cypress.

The cumulative result of our cost-reduction efforts is shown in *Figure 2*.

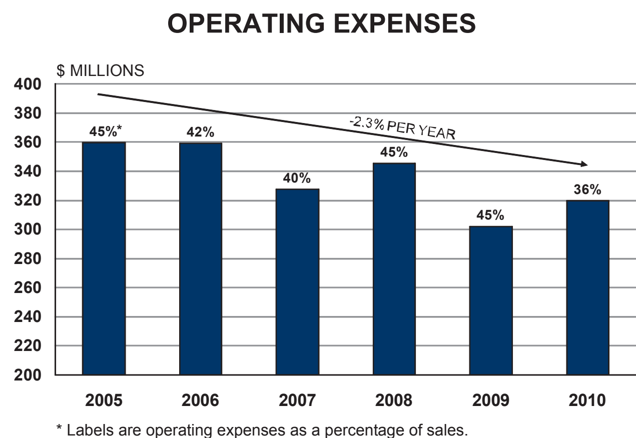
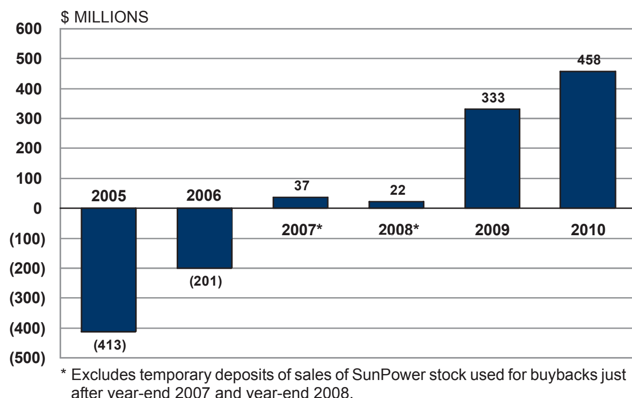


Figure 2. Cypress's operating expenses have dropped 2.3% per year in absolute dollars over the last five years. The $18 million increase in operating expenses in 2010 vs. 2009 was due to the reinstatement of our bonus and profit-sharing programs, increased sales commissions, and the elimination of our temporary holiday shutdown. These are mostly rebound expenses, not new structural expenses. The 2010 operating expense of $320 million represents 36% of sales—improved, but not yet at our financial model of 30%.

With our top line growing, our expenses under control, and our capital expenditures greatly reduced by our "Flex Fab" strategy, which utilizes both internal and external wafer fabrication plants, Cypress has become consistently cash flow positive, and generated over $250 million in cash in 2010. Consequently, our net cash has increased by $871 million over the past five years, as shown in *Figure 3*.

NET CASH (CASH - DEBT)



* Excludes temporary deposits of sales of SunPower stock used for buybacks just after year-end 2007 and year-end 2008.

Figure 3. With convertible debt of $600 million and only $187 million in cash, Cypress had a net debt of $413 million in 2005, the year before we adopted our programmable products mission and stopped investing in Moore's Law. Since then, our net cash position has increased by $871 million, finishing 2010 at $458 million. In addition, Cypress has established a positive operating cash flow of over $200 million per year, which gives us the flexibility to buy back shares, acquire companies with no share count dilution, and/or pay a dividend to our shareholders.

During the 2008-2010 period, we used our cash flow to buy back 54.8 million Cypress shares—and we currently have board authorization to buy back another $567 million in shares in the future. It is also likely that we will begin to pay a dividend to our shareholders in either 2011 or 2012.

PSoC

In 2010, PSoC revenue passed the $200 million mark, as we shipped our 828 millionth unit by year-end. In 2011, we expect PSoC revenue to increase by at least 50% and PSoC shipments to cross the billion-unit mark by mid-year. With revenue of more than $100 million per quarter, the Consumer and Computation Division (CCD), which controls two of our four PSoC-based business units (BUs) and accounts for the bulk of our PSoC revenue, has now surpassed our newly named (sans image sensor) Memory Products Division (MPD) as the largest of our four divisions.

TrueTouch™, the trade name for our PSoC-based touchscreen chip family, is currently driving CCD's revenue growth, as did our CapSense® (capacitive touch sensing) products a few years ago. The touchscreen trend started with the introduction of the Apple iPhone in 2007. The iPhone touchscreen was designed with chips proprietary to Apple, and caused a "land rush" to find touchscreen chips in the general market. Less than six months after the iPhone introduction, we developed the firmware algorithms to make a competitive touchscreen product out of a 2004-vintage PSoC chip code-named Radon, featured on the cover of the 2009 Annual Report. In my keynote address at that year's Embedded Systems Conference, I characterized this forward-looking aspect of PSoC as: "*Solving problems you did not know existed for customers you have never met—the ultimate in time to market.*" Our overall PSoC revenue trend is shown in *Figure 4*.

PSoC REVENUE

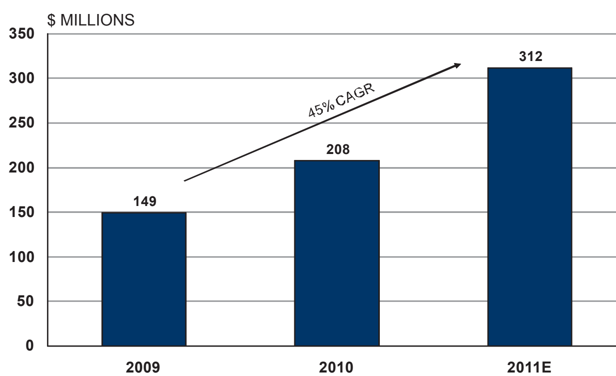


Figure 4. PSoC revenue grew 40% to $208 million in 2010, with an expectation to grow 50% to $312 million or more in 2011. That revenue includes all PSoC families: PSoC 1, PSoC 3, PSoC 5, CapSense (capacitive touch sensing), TrueTouch (touchscreen), automotive, PowerPSoC, and our Optical Navigation System (ONS)—a PSoC with an image sensor used for finger navigation, a function made familiar by BlackBerry cell phones. Cypress entered these attractive but very diverse markets quickly, taking advantage of the fact that PSoC needs only software—not new chips—to rapidly create highly differentiated customer system solutions.

The popularity of touchscreens in cell phones has already led to a second wave of Cypress touchscreen design wins in other high-volume consumer products, such as digital cameras, automotive dashboards, GPS devices, printers, IP phones, E-books and tablet computers. We are particularly proud of our design wins in Garmin and TomTom GPS systems, Cisco IP phones, HP printers, and a Sony state-of-the-art camera, which is controlled by a touchscreen that works not just in rainy or humid environments—but also under water.

Apple shook up the market again in 2009 with the introduction of the iPad tablet computer, which was again designed with chips proprietary to Apple. While a typical cell phone touchscreen has approximately 135 "nodes," the unique row-column intersections analogous to pixels in a display, the larger tablet-computer format contains 750 or more nodes, beyond the capacity of current cell phone touchscreen chips. Cypress's initial solution to this problem, now in production in several Tier-1 tablet computers, was to combine several 256-node standard touchscreen chips with a PSoC 3 chip acting as a "traffic cop" to create a high-performance, multichip solution. Our competitors face the same multichip cost problem. In January 2011, we introduced the TMA884, which, with its 884 nodes, is the market's first single-chip solution for tablet computers. In the same manner as we had solved earlier problems, we achieved quick time-to-market because we solved the 884-node problem by adding a proprietary Digital Signal Processing (DSP) technology to one of our existing PSoC chips.

The original PSoC 1 family produces the bulk of our current revenue. For example, our touchscreen chips are members of the PSoC 1 family. In last year's Annual Report, I described in detail two second-generation PSoC product families, PSoC 3 and PSoC 5, which have the following advantages over PSoC 1: faster computational performance by 7.5 to 25 times, 10 times the number of programmable logic gates, analog circuitry that is 256 times more accurate and 10- to 30-times faster, and three- to eight-times lower power consumption. Simply said, PSoC 3 and PSoC 5 are exactly what our PSoC 1 customers asked for in the next generation.

Cypress's PSoC 3 solution addresses the upper end of the market for 8-bit products and one-half of the 16-bit market—equal to an additional $5.5 billion in addressable markets. PSoC 5 opens another $5.6 billion in markets, bringing the total served market for all PSoC products to $12.7 billion—nearly eight times as large as the original PSoC 1 market. Consequently, five quarters after its introduction—at a similar point in its development as a family—PSoC 3 is generating design wins at three times the rate of PSoC 1 (see graphic inside front cover).

PSoC 3 is winning designs faster than PSoC 1 not only because of hardware improvements, but more significantly because of our second-generation PSoC Creator software, an Integrated Design Environment (IDE) that allows our customers' engineers to design a *complete system in a single software environment on a single silicon chip*. We have dubbed this attribute as "Design the Way You Think" in our advertising. The alternative, as shown in the example router system design on the inside front cover, is to buy seven discrete chips from six different vendors, solder them on a printed circuit board, and perform several time-killing engineering iterations.

PowerPSoC consists of nothing more than the ubiquitous Radon chip, this time with added high-performance transistors capable of handling more than 30 watts of power. The PowerPSoC chip was designed to be a sophisticated, four-channel Light Emitting Diode (LED) driver capable of driving very bright LEDs in tandem or controlling four channels of color LEDs precisely. We expect the revenue of the PowerPSoC BU to be in the $8 million-to-$10 million range in 2011. In the long term, we expect the PowerPSoC business to be slowly growing, highly stable, very profitable and broadly distributed, because it is used to drive the lights, motors, latches, solenoids, and other real-world devices that are used by thousands of companies around the world.

OUR BEST NEW PRODUCT PORTFOLIO

Although I have written a lot about how our new PSoC products are used to create compelling new consumer products, there are two important new product families coming from the MPD and DCD divisions in 2011.

Our synchronous SRAM BU has finished introducing its 89-member, 65-nanometer, high-performance SRAM family for routers with memory densities up to 144 megabits (one billion transistors per chip). These memories perform at frequencies up to 550 MHz, allowing data to be stored and retrieved at a rate of up to 79.2 gigabits per second (equivalent to moving the contents of 10,000 400-page books per second). These advanced SRAMs are all in production, but the conversion of our business from the equivalent products in our older technologies to our new 65-nm products is only about 44% complete, giving us room for future gross margin improvement (or to hold on to our gross margins better in a downturn).

Finally, we have our first USB 3.0 chip working. USB 3.0 transfers data at five gigabits per second, 10 times faster than the USB 2.0 chip in your laptop. Like our current USB families of products, which generate over $100 million per year in revenue, our USB 3.0 chip contains a microprocessor and is also customer-programmable. We will have sampled our first USB 3.0 chip before you read this report.

We believe that Cypress has the strongest new product portfolio in its history. These new products are driving up our average selling price (ASP) as shown in *Figure 5*.

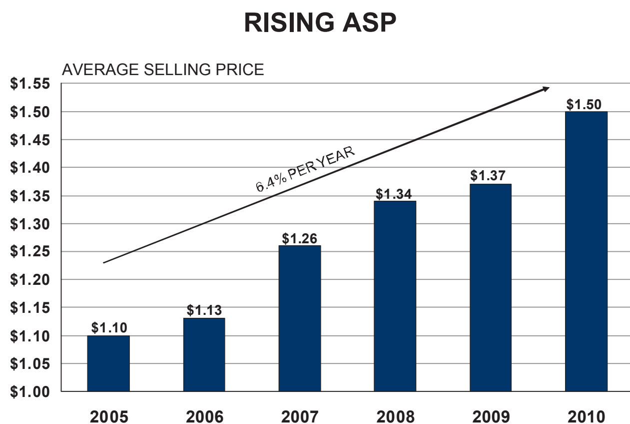


Figure 5. Cypress's average selling price (ASP) has increased 6.4% per year over the last five years. There are three driving factors behind this: selling a higher mix of proprietary products; convincing our customers to pay the full value for our PSoC products, with their ability to replace numerous discrete chips; and finally, selling more of our very-highest-performance synchronous SRAMs into advanced routers.

EMERGING TECHNOLOGY DIVISION

There are four startup BUs in the Emerging Technology Division (ETD). These businesses plan to enter new markets, leveraging Cypress's existing products, technologies, business processes and infrastructure. We have launched 12 internal startups since 1992, and hope that one of our four current startups can be the next SunPower or the next Cypress Microsystems, which invented PSoC.

Cypress Envirosystems makes several product families, the most notable of which is the Wireless Pneumatic Thermostat (WPT), a device that uses Cypress WirelessUSB and PSoC chips to establish Internet control of legacy pneumatic (air-powered) thermostats. America has 60 million dumb, unconnected pneumatic thermostats that waste a huge amount of energy by heating or air conditioning empty buildings at night and on weekends. Cypress Envirosystems can retrofit its RF-connected WPTs in minutes to convert an existing building to centralized energy control in days. The $600 retail cost of the thermostat is paid back by energy savings in 1.5 years.

AgigA Tech makes very large nonvolatile memories with up to 64 gigabits of storage—16,000 times more bits than the largest nonvolatile SRAM chips made by our MPD division. These large nonvolatile memories are used to store (cache) data in front of disk drives, so that in the event of a power loss, the data waiting in the cache to be stored on the disk drive is saved. The competing technology is known as "battery-backed RAM," a technique which uses normal DRAMs with batteries to preserve data in the case of a power outage. AgigA Tech's approach is more cost-effective and much more reliable than battery-backed RAMs, which represent a $200 million market opportunity.

Our Optical Navigation System (ONS) BU sells a specialized PSoC chip with an optical sensor to perform the "finger navigation" function made familiar by BlackBerry cell phones. Finger navigation is also starting to take hold in the high-volume remote control market, where the confluence of television and computers has created the need for remote controls with the ability to control a cursor. We estimate the market for cell phone and remote control finger navigation is about $180 million.

Our China Business Unit (CBU), located in Shanghai, is chartered to define and design chips in China for local customers. CBU's chips are sold into high-volume consumer markets such as eBikes and white goods (refrigerators, washing machines, etc.). CBU also attaches its chips to small modules to serve the laptop computer trackpad market with high-end products that allow trackpads to sense complex multifinger gestures, like the ones used on touchscreen cell phones. The combined size of the Chinese eBike and white goods markets is $100 million, while the size of the worldwide laptop trackpad market is $450 million.

Last year, I predicted that each of our four startup BUs would produce its first $1 million quarter. Two BUs achieved that goal, and two created significant revenue, but missed it. However, the four startups together posted a peak revenue quarter of $6 million.

Overall ETD revenue for 2010 was $18 million, more than double the $8 million posted in 2009. We expect ETD revenue to double again to $36 million in 2011, as shown in *Figure 6*. At that point, the ETD division alone will be big enough to add three percentage points to Cypress's growth rate—fully half of the semiconductor industry's current growth rate.

EMERGING TECHNOLOGY DIVISION (ETD) REVENUE

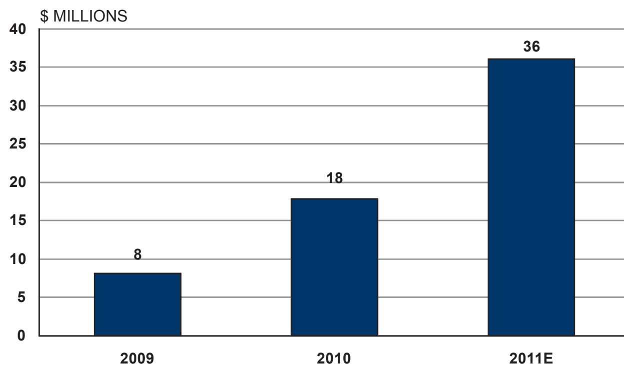


Figure 6. The revenue of the Emerging Technology Division (ETD) was $18 million in 2010, more than double our ETD revenue in 2009. We expect another doubling of revenue to $36 million in 2011, at which time ETD revenue will be big enough to become a material source of growth for Cypress. The business units in ETD are as follows: Cypress Envirosystems, which makes energy-saving devices; AgigA Tech, which makes large nonvolatile memories; the ONS BU, which makes Optical (finger) Navigation Systems; and the China BU, which makes chips for eBikes and white goods, as well as advanced trackpads for laptop computers and remote controls.

MANUFACTURING

Cypress decided to stop investing in Moore's Law in our internal wafer fabs in 2005 and switch to a "flex fab" strategy, meaning that we would continue to run and improve our Fab 4 wafer fabrication plant in Bloomington, Minnesota, but expand our fab capacity externally with foundry partners. The new strategy dramatically reduced our capital expenditures, saving us approximately $290 million over the 2007-2010 period, as shown in *Figure 7*.

CAPITAL EXPENDITURES

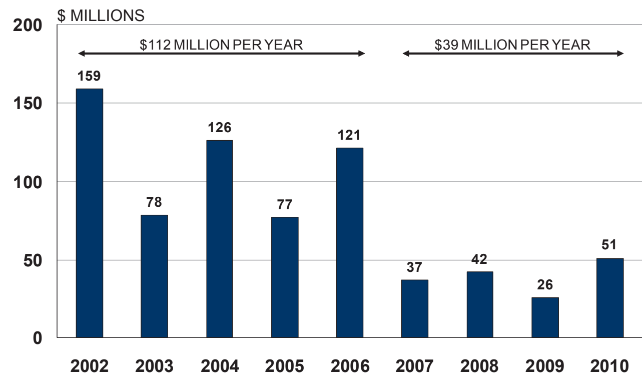


Figure 7. Cypress's capital equipment expenditures averaged $112 million per year for the five years before we stopped investing in Moore's Law. Since then, we have spent an average of $39 million per year on capital equipment, conserving approximately $290 million in cash. If that cash had been invested in wafer fabrication equipment with a seven-year depreciation schedule, it would have generated an annual pretax loss of $42 million, equivalent to about $0.21 in EPS.

The reduction in our capital expenditures cut our quarterly depreciation from an average of $27 million per quarter in 2005 to $12 million per quarter in 2010. This has helped to increase our gross margin from the 40%-45% range in 2005 to the 55%-60% range in 2010, as shown in *Figure 8*.

GROSS MARGIN

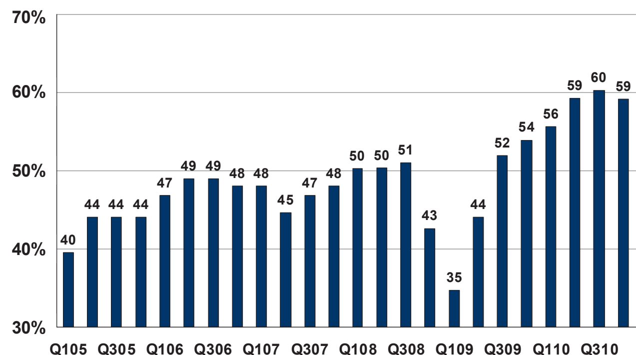


Figure 8. Cypress's gross margin has increased from the 40%-45% range in 2005 to the 55%-60% range in 2010, at times reaching our new financial model of 60%. The improvement comes from both price increases and cost reductions.

The rapid rise in demand for PSoC has filled our capacity to manufacture wafers in S8, our 0.13-micron, nonvolatile PSoC wafer fabrication process. In 2011, we will triple our S8 capacity relative to Q4'10 by adding both internal and external capacity. The capacity added to our Fab 4 plant in Minnesota will keep the internal-external mix at approximately 50-50 in order to keep a significant portion of wafer manufacturing under our direct control. The added Fab 4 capacity will cost significantly less than zero-based capacity because we will add only limited incremental equipment. In addition, we are bringing on a second foundry in China, which has already fabricated its first PSoC wafers and will go into production in Q4'11.

We are restructuring our assembly and test operation in Cypress Manila Ltd. (CML). Our goal over the next two years is to continuously reduce our unit cost, to cut our manufacturing cycle time by a factor of three, and to cut our headcount by a factor of two. We expect that we can make these improvements without reducing output.

The key to this transformation is the "Autoline," a highly automated manufacturing line, developed and patented by Cypress, which takes in silicon wafers and completely assembles and tests them in hours with significant cost and quality advantages. In our CML conventional assembly and test plant, which Cypress is phasing out in 2011, wafers pass through three different manufacturing areas on the way to the customer: a cleanroom where die attach and wire bond are performed, a mold room where the units are encapsulated in plastic and their leads are formed into the final shape, and a test area where the assembled units are laser-marked and given their final electrical tests. Three different manufacturing areas mandate three sets of managers, supervisors and QA people—and more importantly, the need for inventory storerooms before and after each of the manufacturing areas that in turn require additional employees: inventory supervisors, managers and clerks. The inventory storerooms not only slow manufacturing down, but also inevitably lead to the collection of excess and impaired inventory that is eventually written off.

This common but archaic method of manufacturing does not belong in the semiconductor industry in 2011. Could we imagine an automotive assembly line, for example, that allowed excess engines or doors to pile up in inventory points, or needed three manufacturing areas to assemble one automobile? The Autoline is just like an automobile assembly line, a straight-through, wafer-to-finished product assembly line that performs its job in eight hours, much less than the time than most semiconductors spend lying around in storerooms. A photograph and description of one of our Autolines is provided in *Figure 9*.

CYPRESS AUTOLINE

Figure 9. The Autoline in the picture above accepts wafers at the loading table on the left and moves them through die attach and wire bond to the large plastic molding machine at the far end of the line. On the return trip, the molded units are baked, laser-marked, sawed apart, electrically tested, QA tested and packaged—in the case of this Autoline, onto the tape-and-reel system on the right hand side. The Autoline also prints shipping labels, allowing the reels to be shipped directly. Each of our nine Autolines produces 3,600 to 10,000 units per hour, but requires only four technicians to operate. Since the wafers are assembled and tested without human intervention, the quality defect level on an Autoline is factors better than on a manual assembly line. During 2011, our assembly and test plant, Cypress Manila Ltd. (CML) will become an Autoline-only factory.

Figure 10. Cypress became a public company on May 29, 1986 at a share price of $0.71, adjusted for splits and the SunPower spinout. The 2010 closing share price on December 31, 2010 was a record $18.58, more than double the $9.18 share price achieved during the dot.com boom of 2000. The lifetime CAGR of Cypress's share price is 14.6% per year over 24 years.

SHAREHOLDER VALUE

The market rewarded our performance again in 2010, raising our share price to an all-time record of $18.58 per share, beating the 2009 record of $11.27 and the 2000 dot.com boom record of $9.18. *Figure 10* shows Cypress's lifetime share price, which has maintained a 14.6% CAGR during our 24 years as a public company. *Figure 11* shows that our share price appreciated 76% in 2010, beating all relevant indices.

Cypress's fully diluted share count crept up to 198 million shares in 2010, due to a rising share price and the dilutive impact of the SunPower spinout. Cypress spun out SunPower in September 2008. In that spinout, which was performed according to standard methods, Cypress employees holding stock options or RSUs did not receive the SunPower stock dividend valued at $16.42 per Cypress share. To keep the intrinsic value of their options and RSUs whole, Cypress employees were granted 4.12 post-spin stock options or RSUs to replace each pre-spin option or RSU they held. Cypress bought back 54.8 million shares in the 2008-2010 timeframe to offset the SunPower spinout dilution. Our share count is shown in *Figure 12*.

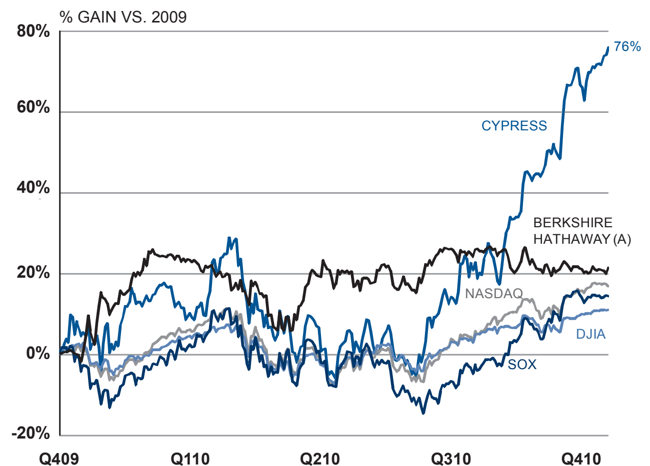


Figure 11. In 2010, Cypress's share price appreciated 76% relative to its 2009 year-end price. The major stock indices appreciated between 11.0% (Dow Jones) and 16.9% (Nasdaq), while the Philadelphia Semiconductor Index (SOX) rose 14.4%. Berkshire Hathaway (A) beat the indices with 21.4% performance. Cypress also beat the indices over the past six years, as shown on the front cover.

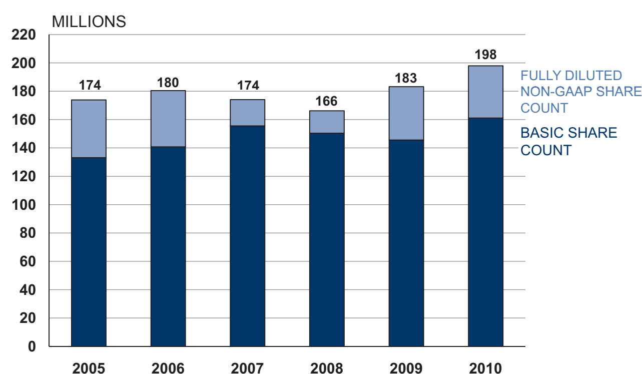


Figure 12. Cypress's fully diluted share count reached 198 million shares in 2010, rising despite the retirement of 11.9 million shares during the year. Prior to 2010, Cypress bought back 5.8 million shares in 2009 and 37.1 million shares in 2008—bringing the total to 54.8 million shares retired for the three-year period. The buybacks were used to offset the dilutive effect of the SunPower spinout. Cypress currently has $567 million authorized for future buybacks.

2010 BUYBACK AND YIELD ENHANCEMENT PLAN (YEP) TRANSACTIONS

TYPE	NO. SHARES	COST/ SHARE	COST (MILLIONS)	RETURN (MILLIONS)
BUYBACKS (13)	1,901,187	$17.40	$33.1	$0.0
YEP (EXERCISED)	10,000,000	$11.49	$114.9	$0.0
YEP (NOT EXERCISED)	0	N/A	$0.0	$9.6
	11,901,187	$12.43*	$148.0	$9.6

* The average buyback price is $11.63 if the $9.6 million YEP cash return is applied to the buyback program.

Figure 13. Cypress buys back stock using two mechanisms, direct market purchases and "yield enhancement plans" (YEPs). In effect, a YEP uses put options with a typical 30-60 day term issued by the company to buy back shares at an option price that is typically set at a 0%-10% discount to market. Cypress receives $0.53-$1.23 per share for issuing each of the put options. When the contract is settled, if Cypress's share price is above the option price, we buy no shares, but receive cash for issuing the put options. If Cypress's share price is below the option price, we buy back the shares at a price discounted by both the option discount and the value received for the put option. In 2010, using buybacks and YEPs, Cypress received $9.6 million in cash and bought back 11.9 million shares for $148 million, at an average buyback price of only $12.43.

In 2010, Cypress's board authorized another $600 million stock buyback, against which we purchased 11.9 million shares at an average price of $12.43, leaving $567 million still available for buybacks. We used both direct market purchases and options to retire the stock at below-market prices, as outlined in *Figure 13*.

CONCLUSION

We made great progress this year toward achieving our Mission Statement "*to transform Cypress into the leading supplier of programmable solutions in systems everywhere.*" Our PSoC technology is the transformative force. We now have the best product portfolio ever. We are designed into world-leading products to the greatest extent in our history. We are growing at the same time we are cutting costs. Our innovative startup strategy produced PSoC, which is driving our current growth, and, in turn, funding a new wave of internal startups that will drive our future.

The market has recognized our accomplishments and rewarded us with a series of record share prices. The good news is, we have already done—market willing—everything that is required in R&D and manufacturing to produce $1 billion in revenue and $1.00-plus in EPS in 2011.

T.J. Rodgers
President and CEO

This is the 25th Annual Report I've written for our public shareholders. I thank the Cypress employees who helped to create the report, often after-hours and over the weekends. We tell our own story without the use of ad agencies or PR firms. *TJR*

All financial comments relate to our non-GAAP financial reporting unless otherwise noted.

The preceding letter contains several forward-looking statements made subject to the safe harbor provisions of the Private Litigation Reform Act of 1995, regarding, among other things, new product designs and releases, the strength of our product portfolio, our expected product features and performance, our market share, the possibility of paying a dividend, our financial performance in the current economy, the lowering of our operating expenses (especially as compared to our revenue), our plans to add manufacturing capacity in Minnesota and bring on a second foundry in China, our plans for our CML facility, our goal of reducing our unit cost, the future financial performance of the internal start-ups in our Emerging Technology Division and other future events as well as the expected revenue and sales for certain of our products in 2011 and beyond (including especially for PSoC and PowerPSoC) and other financial performance projections for Cypress and certain of its business units and operating divisions. Readers are cautioned that these forward-looking statements are not guarantees and may differ materially from actual future events or results due to a variety of factors, including but not limited to: the possibility of a further decline in the general economy, the economic conditions and growth trends in the semiconductor industry and the markets served by Cypress and its Emerging Technology Division and whether our investment in such start-ups will pay off, the future number of our sites and employees, the impact of increased competition, market acceptance of new product offerings, industry wide shifts in supply and demand, the ability of our sales and marketing group to execute on our PSoC initiatives and other new product launches, the cost efficient utilization of our manufacturing capacity, our ability to meet our manufacturing goals, our ability to continue to drive down our operating expenses and other risks identified in Cypress's most recent reports on Form 10-K and 10-Q, including in this Annual Report. We use words such as "anticipates," "believes," "expects," "forecast," "future," "intends," "look forward," "plans," "should," and similar expressions to identify such forward-looking statements. All forward-looking statements included in the preceding letter are based upon information available to, and the expectations of, Cypress management as of the date of the letter, which may change. We assume no obligation to update any such forward-looking statement. Such information speaks only as of the date of this release.

CONTENTS

To supplement its consolidated financial results presented in accordance with GAAP, Cypress uses non-GAAP financial measures which are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described in the following reconciliation tables. Management believes that these non-GAAP financial measures reflect an additional and useful way of viewing aspects of Cypress's operations that, when viewed in conjunction with Cypress's GAAP results, provide a more comprehensive understanding of the various factors and trends affecting Cypress's business and operations.

Cypress uses each of these non-GAAP financial measures for internal managerial purposes, when providing its financial results and business outlook to the public, and to facilitate period-to-period comparisons. Management believes that these non-GAAP measures provide meaningful supplemental information regarding Cypress's operational and financial performance of current and historical results. Management uses these non-GAAP measures for strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these non-GAAP financial measures facilitate management's internal comparisons to Cypress's historical operating results and comparisons to competitors' operating results.

Cypress believes that providing these non-GAAP financial measures, in addition to the GAAP financial results, are useful to investors because they allow investors to see Cypress's results "through the eyes" of management as these non-GAAP financial measures reflect Cypress's internal measurement processes. Management believes that these non-GAAP financial measures enable investors to better assess changes in each key element of Cypress's operating results across different reporting periods on a consistent basis. Thus, management believes that each of these non-GAAP financial measures provides investors with another method for assessing Cypress's operating results in a manner that is focused on the performance of its ongoing operations.

Consolidated Statements of Operations (Annual) 11

Reconciliation of GAAP to Non-GAAP Financial Measures (Annual) 12

Consolidated Statements of Operations (Quarterly) 13

Reconciliation of GAAP to Non-GAAP Financial Measures (Quarterly) 14

Consolidated Balance Sheets 15

Consolidated Statements of Operations (Annual)

(In millions, except per-share data)

	Year Ended		
	Jan. 2, 2011	Jan. 3, 2010	Dec. 28, 2008
Revenues	$ 878	$ 668	$ 766
Costs and expenses (credits):			
Cost of revenues	388	397	426
Research and development	177	181	193
Selling, general and administrative	219	220	249
Amortization of acquisition-related intangible assets	3	4	6
Impairment of goodwill	-	-	351
Restructuring charges	3	15	22
Gain on divestitures	-	-	(10)
Total costs and expenses, net	790	817	1,237
Operating income (loss)	88	(149)	(471)
Gain on sale of SunPower common stock	-	-	192
Interest and other income (expense), net [1]	7	5	(32)
Income (loss) from continuing operations before income taxes	95	(144)	(311)
Income tax provision	(19)	(6)	(8)
Income (loss) from continuing operations	$ 76	$ (150)	$ (319)
Income from discontinued operations attributable to Cypress [2]	-	-	34
Income from discontinued operations-noncontrolling interest, net of taxes [2]	-	-	34
Noncontrolling interest, net of income taxes	(1)	(1)	-
Net income (loss)	75	(151)	(251)
Less net (income) loss attributable to noncontrolling interest	1	1	(34)
Net income (loss) attributable to Cypress	$ 76	$ (150)	$ (285)
Net income (loss) per share - basic:			
Continuing operations attributable to Cypress	$ 0.47	$ (1.03)	$ (2.12)
Discontinued operations attributable to Cypress	-	-	0.23
Net income (loss) per share - basic:	$ 0.47	$ (1.03)	$ (1.89)
Net income (loss) per share - diluted:			
Continuing operations attributable to Cypress	$ 0.40	$ (1.03)	$ (2.12)
Discontinued operations attributable to Cypress	-	-	0.23
Net income (loss) per share - diluted:	$ 0.40	$ (1.03)	$ (1.89)
Weighted-average shares outstanding:			
Basic	161	146	150
Diluted	191	146	150

[1] The fiscal year ended December 28, 2008 includes the retrospective application of adopting new accounting guidance relating to debt.

[2] Our financial statements have been recast to account for our spin-off of SunPower as discontinued operations in fiscal 2008.

Reconciliation of GAAP to Non-GAAP Financial Measures (Annual)

(In millions)

	Year Ended		
	Jan. 2, 2011	Jan. 3, 2010	Dec. 28, 2008
GAAP revenues	$ 878	$ 668	$ 766
SRAM legal settlement	6	-	-
Non-GAAP revenues	$ 884	$ 668	$ 766
GAAP gross margin	$ 489	$ 271	$ 340
Stock-based compensation expense	23	40	27
SRAM legal settlement	6	-	-
Impairment of assets	-	-	2
Write down of final build inventory	-	-	2
Other	-	4	2
Non-GAAP gross margin	$ 518	$ 315	$ 373
GAAP research and development expenses	$ 177	$ 181	$ 193
Stock-based compensation expense	(21)	(37)	(39)
Other	-	-	(2)
Gain on sale of long-term asset	-	2	-
Changes in value of deferred compensation plan	-	-	1
Non-GAAP research and development expenses	$ 156	$ 146	$ 153
GAAP selling, general and administrative expenses	$ 219	$ 220	$ 249
Stock-based compensation expense	(48)	(64)	(55)
Other	-	-	(2)
SRAM legal settlement	(1)	-	-
Impairment of assets	(5)	-	-
Non-GAAP selling, general and administrative expenses	$ 165	$ 156	$ 192
GAAP operating income (loss)	$ 88	$ (149)	$ (471)
Stock-based compensation expense	92	141	121
Acquisition-related expense:			
Impairment of goodwill	-	-	351
Amortization of acquisition-related intangibles	-	3	6
Other	3	5	5
Gain on sale of long-term asset	-	(2)	-
Write down of final build inventory	-	-	3
Changes in value of deferred compensation plan	-	-	(1)
SRAM legal settlement	7	-	-
Impairment of assets	5	-	2
Gains on divestitures	-	-	(10)
Restructuring charges	3	15	22
Non-GAAP operating income	$ 198	$ 13	$ 28
GAAP net income (loss) attributable to Cypress	$ 76	$ (150)	$ (285)
Stock-based compensation expense	92	141	121
Acquisition-related expense:			
Impairment of goodwill	-	-	351
Amortization of acquisition-related intangibles	-	3	6
Other	3	5	5
Gain on sale of long-term asset	-	(2)	-
Write down of final build inventory	-	-	3
Changes in value of deferred compensation plan	-	-	(1)
SRAM legal settlement	7	-	-
Impairment of assets	5	-	2
Gains on divestitures	-	-	(10)
Restructuring charges	3	15	22
Investment-related gains/losses	(3)	3	39
Gain on sale of Sunpower shares	-	-	(192)
Tax effects	3	3	6
Income from discontinued operations attributable to Cypress	-	-	(34)
Non-GAAP net income attributable to Cypress	$ 186	$ 18	$ 33
GAAP net income (loss) per share attributable to Cypress - diluted	$ 0.40	$ (1.03)	$ (1.89)
Stock-based compensation expense	0.45	0.97	0.74
Acquisition-related expense:			
Impairment of goodwill	-	-	2.11
Amortization of acquisition-related intangibles	-	0.03	0.04
Other	0.01	0.02	0.03
Gain on sale of long-term asset	-	(0.02)	-
Write down of final build inventory	-	-	0.02
Changes in value of deferred compensation plan	-	-	(0.01)
SRAM legal settlement	0.04	-	-
Impairment of assets	0.03	-	0.01
Gains on divestitures	-	-	(0.06)
Restructuring charges	0.01	0.10	0.13
Investment-related gains/losses	(0.02)	0.02	0.23
Gain on sale of Sunpower shares	-	-	(1.16)
Tax effects	0.02	0.02	0.04
Non-GAAP share count adjustment	-	(0.01)	0.17
Income from discontinued operations attributable to Cypress	-	-	(0.20)
Non-GAAP net income per share attributable to Cypress - diluted	$ 0.94	$ 0.10	$ 0.20

Consolidated Statements of Operations (Quarterly)

(In millions, except per-share data)

	Quarter Ended							
	Jan. 2, 2011	Oct. 3, 2010	Jul. 4, 2010	Apr. 4, 2010	Jan. 3, 2010	Sep. 27, 2009	Jun. 28, 2009	Mar. 29, 2009
GAAP revenues	$ 221	$ 232	$ 223	$ 202	$ 194	$ 179	$ 156	$ 139
Costs and expenses (credits):								
Cost of revenues	97	97	98	96	99	94	99	105
Research and development	48	46	43	40	40	43	48	50
Selling, general and administrative	59	54	55	51	51	55	53	61
Amortization of acquisition-related intangible assets	1	1	-	1	1	1	1	1
Restructuring charges	-	3	(1)	1	1	7	1	6
Total costs and expenses, net	205	201	195	189	192	200	202	223
Operating income (loss)	16	31	28	13	2	(21)	(46)	(84)
Interest and other income (expense), net	2	5	(1)	1	3	2	1	(1)
Income (loss) from continuing operations before income taxes	18	36	27	14	5	(19)	(45)	(85)
Income tax provision	(9)	(2)	(6)	(2)	(2)	(1)	-	(3)
Income (loss) from continuing operations	$ 9	$ 34	$ 21	$ 12	$ 3	$ (20)	$ (45)	$ (88)
Loss from Noncontrolling interest, net of income taxes	(1)	-	-	-	(1)	-	-	-
Net income (loss)	8	34	21	12	2	(20)	(45)	(88)
Less net loss attributable to noncontrolling interest	1	-	-	-	1	-	-	-
Net income (loss) attributable to Cypress	$ 9	$ 34	$ 21	$ 12	$ 3	$ (20)	$ (45)	$ (88)
Net income (loss) per share - basic:	$ 0.05	$ 0.22	$ 0.13	$ 0.08	$ 0.02	$ (0.13)	$ (0.32)	$ (0.67)
Net income (loss) per share - diluted:	$ 0.05	$ 0.18	$ 0.11	$ 0.07	$ 0.02	$ (0.13)	$ (0.32)	$ (0.67)
Weighted-average shares outstanding:								
Basic	166	159	161	159	155	152	141	135
Diluted	198	187	190	191	184	152	141	135

Reconciliation of GAAP to Non-GAAP Financial Measures (Quarterly)

(In millions)

	Quarter Ended							
	Jan. 2, 2011	Oct. 3, 2010	Jul. 4, 2010	Apr. 4, 2010	Jan. 3, 2010	Sep. 27, 2009	Jun. 28, 2009	Mar. 29, 2009
GAAP revenues	$ 221	$ 232	$ 223	$ 202	$ 194	$ 179	$ 156	$ 139
SRAM legal settlement	6	-	-	-	-	-	-	-
Non-GAAP revenues	$ 227	$ 232	$ 223	$ 202	$ 194	$ 179	$ 156	$ 139
GAAP gross margin	$ 124	$ 135	$ 125	$ 105	$ 95	$ 85	$ 57	$ 34
Stock-based compensation expense	5	5	7	6	7	8	11	14
SRAM legal settlement	6	-	-	-	-	-	-	-
Other	-	-	-	-	3	-	1	-
Non-GAAP gross margin	$ 135	$ 140	$ 132	$ 111	$ 105	$ 93	$ 69	$ 48
GAAP research and development expenses	$ 48	$ 46	$ 43	$ 40	$ 40	$ 43	$ 48	$ 50
Stock-based compensation expense	(6)	(6)	(6)	(4)	(6)	(8)	(11)	(12)
Other	-	-	-	1	2	-	-	-
Non-GAAP research and development	$ 42	$ 40	$ 37	$ 37	$ 36	$ 35	$ 37	$ 38
GAAP selling, general and administrative	$ 59	$ 54	$ 54	$ 51	$ 51	$ 55	$ 53	$ 61
Stock-based compensation expense	(12)	(11)	(13)	(11)	(11)	(15)	(16)	(22)
SRAM legal settlement	(1)	-	-	-	-	-	-	-
Impairment of assets	(5)	-	-	-	-	-	-	-
Non-GAAP selling, general and administrative	$ 41	$ 43	$ 41	$ 40	$ 40	$ 40	$ 37	$ 39
GAAP operating income (loss)	$ 16	$ 31	$ 28	$ 13	$ 2	$ (21)	$ (46)	$ (84)
Stock-based compensation expense	23	22	26	20	24	31	38	48
SRAM legal settlement	7	-	-	-	-	-	-	-
Impairment of assets	5	-	-	-	-	-	-	-
Other	-	1	1	1	4	-	1	1
Restructuring charges	-	3	(1)	2	1	7	1	6
Non-GAAP operating income (loss)	$ 51	$ 57	$ 54	$ 36	$ 31	$ 17	$ (6)	$ (29)
GAAP net income (loss) attributable to Cypress	$ 9	$ 34	$ 21	$ 12	$ 3	$ (20)	$ (45)	$ (88)
Stock-based compensation expense	23	22	26	20	24	31	38	48
SRAM legal settlement	7	-	-	-	-	-	-	-
Impairment of assets	5	-	-	-	-	-	-	-
Investment-related gains/losses	1	(4)	-	-	-	3	-	1
Other	-	1	1	1	3	-	-	-
Restructuring charges	-	3	(1)	2	1	7	1	6
Tax/other expense effects on non-GAAP adjustments	6	(3)	1	(1)	1	(1)	2	3
Non-GAAP net income (loss) attributable to Cypress	$ 51	$ 53	$ 48	$ 34	$ 32	$ 20	$ (4)	$ (30)

Consolidated Balance Sheets

(In millions)

	As of	
	Jan. 2, 2011	Jan. 3, 2010
ASSETS		
Cash, cash equivalents and short-term investments	$ 434	$ 300
Accounts receivable, net	118	87
Inventories	102	91
Property, plant and equipment, net	260	273
Goodwill and other intangible assets	44	47
Other assets [2]	115	115
Total assets	$ 1,073	$ 913
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 60	$ 62
Deferred income	132	76
Income tax liabilities	65	46
Other liabilities	113	98
Total liabilities	370	282
Total Cypress stockholders' equity	705	632
Non-controlling interest	(2)	(1)
Total equity [1]	703	631
Total liabilities and stockholders' equity	$ 1,073	$ 913

[1] Common stock: 650 and 650 shares authorized; 259 and 235 shares issued; 171 and 159 shares outstanding as of January 2, 2011 and January 3, 2010, respectively.

[2] Includes auction rate securities of $24 and $33 classified as long term investments as of January 2, 2011 and January 3, 2010, respectively.

CORPORATE INFORMATION

BOARD OF DIRECTORS	W. Steve Albrecht(1)	Andersen Alumni Professor of Accounting, Marriott School of Management, Brigham Young University
	Eric A. Benhamou(1,2)	Chairman of our Board; Former Chairman of the Board of 3Com Corp.
	Lloyd Carney(1,2)	CEO, Xsigo Systems
	James R. Long(2,3)	Consultant, Former Executive Vice President of Nortel Networks
	J. Daniel McCranie(3,4)	Chairman of the Board of ON Semiconductor; Former Chairman of Virage Logic
	T. J. Rodgers	Founder, President and Chief Executive Officer of Cypress
	J.D. Sherman(1)	Chief Financial Officer, Akamai Technologies
	Evert P. van de Ven(3,4)	Former Executive Vice President and CTO, Novellus Systems

EXECUTIVE MANAGEMENT	T. J. Rodgers	Founder, President, Chief Executive Officer and Director
	Brad W. Buss	Executive Vice President, Finance and Administration and Chief Financial Officer
	Sabbas Daniel	Executive Vice President, Quality
	Paul Keswick	Executive Vice President, New Product Development, Engineering, IT
	Badri Kothandaraman	Executive Vice President and Executive Director of Cypress Semiconductor Technology India Private Limited
	Dana Nazarian	Executive Vice President, Memory Products Division
	Cathal Phelan	Executive Vice President and CTO
	Dinesh Ramanathan	Executive Vice President, Data Communications Division
	Christopher Seams	Executive Vice President, Sales and Marketing
	Shahin Sharifzadeh	Executive Vice President, Manufacturing and Operations; President, China Ops
	Thomas Surrette	Executive Vice President, Human Resources
	Norman Taffe	Executive Vice President, Consumer and Computation Division
	Harry Sim	CEO, Cypress Envirosystems (subsidiary)
	Ron Sartore	CEO, AgigA Tech (subsidiary)

LEGAL MATTERS
Questions regarding legal matters should be directed to:
Victoria Tidwell — General Counsel and Vice President, Legal

LEGAL COUNSEL
Wilson, Sonsini, Goodrich & Rosati, P.C.
650 Page Mill Road
Palo Alto, California 94304-1050
(650) 493-9300

INDEPENDENT ACCOUNTANTS
PricewaterhouseCoopers LLP
10 Almaden Blvd., Suite 1600
San Jose, California 95113
(408) 817-3700

CORPORATE HEADQUARTERS
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134-1709
Telephone: (408) 943-2600
Facsimile: (408) 943-4730
Internet: http://www.cypress.com

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company, NA
PO Box 43078
Providence, RI 02940-3078
(781) 575-2879

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Governance Committee
(4) Member of the Operations Committee

ANNUAL MEETING

The annual meeting of stockholders for Cypress Semiconductor Corporation will be held on Friday, May 13, 2011, 10:00 a.m., local time, at Cypress's offices at 198 Champion Court, San Jose, California 95134-1709.

COMMON STOCK

Cypress Semiconductor Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol "CY."

FORM 10-K

A copy of Cypress's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 25, 2011, will be made available without charge to all stockholders upon written request to Cypress. Direct requests may be made to the Attention of the Chief Financial Officer at 198 Champion Court, San Jose, Calif. 95134-1709.

The letter to Stockholders and "Management Discussion and Analysis" contain a number of forward-looking statements about the prospects for Cypress and its subsidiaries as well as the semiconductor industry more generally, which are based on our current information and expectations and could be affected by uncertainties and risk factors, including but not limited to those described in our Annual Report on Form 10-K, filed February 25, 2011. Our actual results may differ materially. We use words such as, "anticipates", "believes", "expects", "future", "planning", "intends" and similar expressions to identify forward-looking statements which include statements related to our prices, growth, supply, operations, shipments, our current and future products, profit and revenue.

PSoC, PowerPSoC, West Bridge, CapSense, and Cypress are registered trademarks of Cypress Semiconductor Corp. Programmable System-on-Chip, WirelessUSB, TrueTouch, and PSoC Creator are trademarks of Cypress Semiconductor Corp. SunPower is a registered trademark of SunPower Corp. AGIGARAM is a trademark of AgigA Tech. Inc. ARM is a registered trademark and Cortex is a trademark of ARM Limited. HP is a registered trademark of Hewlett-Packard Development Company LP. Samsung and Wave are registered trademarks of Samsung Electronics Co. Ltd. Corp. Aries is a registered trademark of Aries Industries. Epson and Stylus are registered trademarks of Seiko Epson Corp. Microsoft is a registered trademark of Microsoft Corporation. Acer and Iconia are registered trademarks of Acer Inc. BMW is a registered trademark of BMW AG. Barnes & Noble and Nook are registered trademarks of Barnes & Noble Incorporated. HTC is a registered trademark of HTC Corporation. Garmin is a registered trademark of Garmin Ltd. TomTom is a registered trademark of TomTom International. Cisco is a registered trademark of Cisco Systems Inc. Sony is a registered trademark of Sony Corporation. All other trademarks are the properties of their respective owners.

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

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 2, 2011

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number: 1-10079

CYPRESS SEMICONDUCTOR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**94-2885898**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "larger accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The market value of voting and non-voting common stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on July 4, 2010 as reported on the NASDAQ Global Select Market, was approximately $1.3 billion. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded from the foregoing calculation in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 17, 2011, 173,649,124 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for registrant's Annual Meeting of Stockholders to be filed pursuant to Regulation 14A for the year ended January 3, 2010 are incorporated by reference in Items 10 - 14 of Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

		Page
	PART I	
Item 1	Business	4
Item 1A	Risk Factors	18
Item 1B	Unresolved Staff Comments	28
Item 2	Properties	28
Item 3	Legal Proceedings	28
Item 4	[Reserved]	29
	PART II	
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6	Selected Financial Data	33
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A	Quantitative and Qualitative Disclosure About Market Risk	57
Item 8	Financial Statements and Supplementary Data	60
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	108
Item 9A	Controls and Procedures	108
Item 9B	Other Information	109
	PART III	
Item 10	Directors, Executive Officers and Corporate Governance	110
Item 11	Executive Compensation	110
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	112
Item 13	Certain Relationships and Related Transactions and Director Independence	112
Item 14	Principal Accountant Fees and Services	112
	PART IV	
Item 15	Exhibits and Financial Statement Schedule	113
Signatures and Power of Attorney		118

FORWARD-LOOKING STATEMENTS

Forward-Looking Statements

The discussion in this Annual Report on Form 10-K contains statements that are not historical in nature, but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including, but not limited to, statements related to our programmability strategy; the markets we intend to pursue; our increased reliance on third party manufacturing; our strategy regarding non-aligned, underperforming businesses, including the expected closing of the divestiture of our image sensor business; the number and impact of future personnel terminations, our expectations regarding our patent portfolio; our expectations, including the timing, related to our restructuring activities which includes the closure of our Texas manufacturing facility; the critical nature of our software development efforts, our expectations regarding our active litigation matters and our intent to defend ourselves in those matters; the assumptions and calculations of our unrecognized tax benefits; our expected tax rate on foreign earnings, the adequacy of our cash and working capital positions; our expected return on our yield-enhancement program; our intended use of our line of credit; the value and liquidity of our investments in auction rate securities, and other debt investments, our expectations regarding our outstanding warranty liability, our plans to repurchase stock, whether or not we expect to pay dividends, our interest rate risk, the volatility of our stock price and the impact of new FASB accounting standards on our financial statements. We use words such as “plan,” “anticipate,” “believe,” “expect,” “future,” “intend” and similar expressions to identify forward-looking statements. Such forward-looking statements are made as of the date hereof and are based on our current expectations, beliefs and intentions regarding future events or our financial performance and the information available to management as of the date hereof. Except as required by law, we assume no responsibility to update any such forward-looking statements. Our actual results could differ materially from those expected, discussed or projected in the forward-looking statements contained in this Annual Report on Form 10-K for any number of reasons, including, but not limited to, the state and future of the general economy and its impact on the markets we serve and our investments; the current credit conditions; our ability to expand our customer base, our ability to transform our business with a leading portfolio of programmable products; the number and nature of our competitors; the changing environment and/or cycles of the semiconductor industry; our ability to efficiently manage our manufacturing facilities and achieve our cost goals emanating from our flexible manufacturing strategy; our success in our pending litigation matters, our ability to manage our investments and interest rate and exchange rate exposure; our ability to achieve liquidity in our investments, our ability to develop successful software products, our ability to properly file for patent protection of our inventions and technology, our ability to execute on the key strategies identified in the Business Strategies section of this 10-K and/or the materialization of one or more of the risks set forth above or in Item 1A (*Risk Factors*) in this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

General

Cypress Semiconductor Corporation ("Cypress") is a leading supplier of proprietary and programmable solutions in systems everywhere. Groundbreaking products and solutions based on its unique PSoC programmable system-on-chip platform – including TrueTouch™, CapSense®, PowerPSoC®, OvationONS™, PSoC® 3 and PSoC 5—have achieved robust design wins and increasing market penetration with a rich blend of design flexibility, high performance, component integration, cost-savings, and ease-of-use. In addition to its PSoC-based programmable solutions, Cypress also offers West Bridge® peripheral controllers, Universal Serial Bus (USB) controllers, general-purpose programmable clocks, and a wide portfolio of static random access memories (SRAMs).

As a result, Cypress programmable products can be found in a wide array of the world's leading end products, including cell phones, GPS systems, PCs and PC peripherals, audio and gaming devices, washing machines, and communications devices. Cypress serves numerous markets, including consumer electronics, computation, handsets, data communications, automotive, medical, industrial and white goods.

Cypress was incorporated in California in December 1982. The initial public offering of our common stock took place in May 1986, at which time our common stock commenced trading on the NASDAQ National Market. In February 1987, we were reincorporated in Delaware and in October 1988, we began listing our common stock on the New York Stock Exchange under the symbol "CY." On November 12, 2009, we voluntarily moved our stock listing back to the NASDAQ Global Select Market, maintaining the "CY" ticker symbol.

Our corporate headquarters are located at 198 Champion Court, San Jose, California 95134, and our main telephone number is (408) 943-2600. We maintain a website at *www.cypress.com*. The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K.

Our fiscal 2010 ended on January 2, 2011, fiscal 2009 ended on January 3, 2010 and fiscal 2008 ended on December 28, 2008. Our fiscal 2010 and 2008 contained 52 weeks and fiscal 2009 contained 53 weeks.

Business Segments

As of the end of fiscal 2010, our organization included the following business segments:

Business Segments	Description
Consumer and Computation Division	A product division focusing on PSoC, touch-sensing and touchscreen solutions, USB and timing solutions.
Data Communications Division	A product division focusing on data communication devices for wireless handset and professional video systems.
Memory and Imaging Division	A product division focusing on static random access memories, nonvolatile memories and image sensor products.
Emerging Technologies and Other	Includes Cypress Envirosystems and AgigA Tech, Inc., both majority-owned subsidiaries of Cypress, the Optical Navigation Systems ("ONS") business unit, China business unit, foundry-related services, other development stage companies and certain corporate expenses.

For additional information on our segments, see Note 20 of Notes to Consolidated Financial Statements under Item 8.

Business Strategies

Cypress is focused on managing expenses and maintaining a strong balance sheet. We have successfully transitioned many of our business operations to lower-cost centers, including India, the Philippines and China. In addition we are utilizing foundry partners for more of our manufacturing. About half of our manufacturing is now done outside of Cypress.

In 2009, Cypress introduced two new architectures for its PSoC platform, PSoC 3 and PSoC 5, that extend Cypress's reach into many new and fast-growing markets and increased its total addressable market ("TAM") by 10x from $1.5 billion to $15 billion. Combining the PSoC family of devices with an intuitive new integrated software development environment called PSoC Creator™, Cypress is positioned to claim new business in the microcontroller, programmable analog and programmable logic markets. Over the past five years, Cypress has grown from the 18th largest 8-bit microcontroller vendor to No. 8 in 2010.

In 2010, Cypress also continued to focus sales, marketing, and product development on its "touch" business, which includes touchscreens and button-replacement technologies. As a result, we realized significant revenue growth for our PSoC-based TrueTouch™ touchscreen controllers and CapSense® capacitive-touch-sensing products, particularly in the handset market. We also realized our first design win from our ONS business unit, which provides unique touch sensors for mobile phones. As a result, Cypress's handset revenue increased by more than 30 percent, year over year.

In fiscal 2011, Cypress will continue to pursue the following key strategies:

- *Drive profitability.* Driving profitability and a high return on investment for our stockholders is our first priority. Toward that end, Cypress has implemented a tight, corporate wide focus on gross margin and operating expenses. Over the past several years, Cypress has continued to move its operations to low-cost centers in India, the Philippines and China, implemented a flexible manufacturing model (see below), As a result of these efforts, Cypress achieved substantial cash flow leverage, with a cash and investment balance totaling $458 million at the end of 2010. In Q4 2010, Cypress announced another $600 million plan to repurchase Cypress stock.

- *Drive programmability.* We believe our proprietary programmable technology and programmable product leadership, led by our flagship PSoC family of devices, represents an important competitive advantage for us, and has enabled us to maintain strong average selling prices ("ASPs") across our product lines. Driven by current and anticipated demand, we continue to define, design and develop new programmable products and solutions that offer our customers increased flexibility and efficiency, higher performance, and higher levels of integration.

- *Extend technology leadership and drive PSoC proliferation.* The most important step of our programmability initiative is to drive PSoC adoption in large market segments. PSoC devices can be used in applications ranging from cell phones, MP3 player, appliances, cars, etc. The product's easy-to-use programming software and development kits can facilitate rapid adoption across many different platforms.

- *Focus on large and growing markets*. We will continue to pursue business opportunities in markets, including handheld and human interface/consumer devices, portable medical devices, industrial sensing and control, mobile accessories, automotive, and system management.

- *Collaborate with customers to build system-level solutions.* We work closely with customers from initial product design through manufacturing and delivery. Our sales, customer and technical support, product marketing and development efforts are organized to optimize our customers' design efforts, helping them to achieve product differentiation and speed time-to-market. Our engineering expertise is focused on developing whole product solutions, including silicon, software and reference designs.

- *Leverage flexible manufacturing.* Our manufacturing strategy combines capacity from leading foundries with output from our internal manufacturing facilities. This initiative allows us to meet rapid swings in customer demand while lessening the burden of high fixed costs, a capability that is particularly important in high-volume consumer markets that we serve with our leading programmable product portfolio.

- *Identify and exit legacy or non-strategic, underperforming businesses.* A focused business will allow us to better achieve our current objectives. Over the past four years, we have divested certain business units that were inconsistent with our future business initiatives and long-term plans. Exiting these businesses has allowed us to focus our current resources and efforts on our core programmable and proprietary business model. As part of our growth strategy, we will continue to review our business units to ensure alignment with our short and long-term goals.

- *Pursue complementary strategic relationships.* Complementary acquisitions can expand our markets and strengthen our competitive position. As part of our growth strategy, we continue to selectively assess opportunities to develop strategic relationships, including acquisitions, investments and joint development projects with key partners and other businesses.

As we continue to implement our strategies, there are many internal and external factors that could impact our ability to meet any or all of our objectives. Some of these factors are discussed under Item 1A.

Product/Service Overview

<u>Consumer and Computation Division:</u>

The Consumer and Computation Division designs and develops solutions for many of the world's leading end-product manufacturers. Its programmable product offerings are the linchpin of our programmable solutions strategy. This division's products include PSoC devices, CapSense and TrueTouch touch-sensing/touchscreen products and the industry's broadest selection of USB controllers and WirelessUSB™ products, and general-purpose programmable clocks. PSoC products are used in various consumer applications such as MP3 players, mass storage, household appliances, laptop computers and toys. USB is used primarily in PC and peripheral applications and is finding increased adoption rates in consumer devices such as MP3 players, mobile handsets and set-top boxes.

The following table summarizes the markets and applications related to our products in this segment:

Products	Markets	Applications
PSoC 1, PSoC 3 and PSoC 5	Consumer, handsets, industrial, medical, communications, automotive	Digital still and video cameras, appliances, handheld devices, notebook computers, LCD monitors, medical devices, mice, keyboards, industrial, toys, mobile accessories and e-Bikes.
TrueTouch	Consumer, computation, handsets, communication, gaming, automotive	Mobile handsets, portable media players, video games, GPS systems, keyboards and other applications.
CapSense	Consumer, industrial, computation, white goods, communication, automotive	Notebook computers and PCs, appliances, handheld devices, automotive control pads/media centers, digital cameras, toys, consumer products and many other applications.
USB controllers	PC peripherals, consumer electronics	Mice, keyboards, handheld devices, gamepads and joysticks, VoIP phones, headsets, presenter tool, dongles, point of sale devices and bar code scanners.
WirelessUSB	PC peripherals	Mice, keyboards, wireless headsets, consumer electronics, gamepads, remote controllers, toys and presenter tools.
Programmable clocks	Consumer, computation	Set-top boxes, copiers, printers, HDTV, industrial automation, printers, single-board computers, IP phones, storage devices, servers and routers.
RoboClock™ buffers	Communications	Basestations, high-end telecom equipment (switches, routers), servers and storage.

PSoC® Programmable System-on-Chip products. Our PSoC products are highly integrated, high-performance mixed-signal devices with an on-board microcontroller, programmable digital and analog blocks, SRAM and flash memory. They provide a low-cost, single-chip solution for a variety of consumer, industrial, medical, and system management applications. A single PSoC device can integrate as many as 100 peripheral functions saving customers design time, board space, power consumption, and system costs. Because of its programmability, PSoC allows customers to make modifications at any point during the design cycle, providing unmatched flexibility.

Cypress's PSoC 1 device delivers performance, programmability and flexibility with a cost-optimized 8-bit M8 CPU subsystem. PSoC 3 uses an 8-bit, Intel® 8051-based microcontroller with 7.5 times more computing power than PSoC 1. The 32-bit, ARM®-Cortex™-based PSoC 5 has 25 times more computing power than PSoC 1. The analog-to-digital converters on PSoC 3 and PSoC 5 are 256 times more accurate and 10- to 30-times faster than PSoC 1, and there are 10 times more programmable logic gates available. PSoC Creator™ is a unique design tool that allows engineers to use intuitive schematic-based capture and dozens of certified, firmware-defined, pre-packaged peripherals. Cypress shipped its 750 millionth PSoC device in 2010, and launched an online community for developers of PSoC and other products (www.cypress.com/go/community) featuring technical forums, blogs and videos. The site registered more than 20,000 users by the end of the year. Also, PSoC 3, PSoC 5 and PSoC Creator were named finalists in *EDN* magazine's annual Innovation Awards.

TrueTouch Touchscreen Solutions. TrueTouch is a single-chip touchscreen solution that can interpret the inputs of more than 10 fingers from all areas of the screen simultaneously. This enables designers to create new usage models for products such as mobile handsets, portable media players ("PMPs"), global positioning systems ("GPS") and other products. The TrueTouch family also includes devices that perform traditional touchscreen functions including interpreting single touches, and gestures such as tap, double-tap, pan, pinch, scroll, and

rotate. In 2010, Cypress demonstrated a tablet-sized capacitive touchscreen technology with 10-finger tracking, ideal for laptops, netbooks and tablet PCs and introduced 1mm stylus support and hover detection for TrueTouch capacitive touchscreens. Cypress's True Touch solutions work with all major handset, tablet an PC operating systems including Android, Windows, Apple, Linux, Wen OS and QNX. The company announced multiple design wins including Samsung, Fujutsu, HTC phones and HP printers. Cypress's combined portfolio of touchscreen solutions is the industry's broadest. Cypress secured its first major tablet and large-screen notebook PC touchscreen design wins in 2010 and is working with all major tablet manufacturers on future designs.

CapSense . Our PSoC-based CapSense capacitive touch-sensing solutions replace mechanical switches and controls with simple, touch-sensitive controls by detecting the presence or absence of a conductive object (such as a finger) and measuring changes in capacitance. This technology lends itself equally well to buttons, sliders, touchpads, touchscreens and proximity sensors, taking industrial design possibilities to a much higher level. The CapSense family includes CapSense, CapSense Express™ and CapSense Plus™—each supporting different ranges of general purpose inputs/outputs, buttons and slider devices. Cypress's CapSense devices feature SmartSense™ technology, an automatic tuning solution for its CapSense devices that dynamically detects and adjusts a system's capacitive-sensing parameters, eliminating the need for manual tuning. Cypress has replaced more than 3.5 billion buttons with CapSense technology and is the worldwide capacitive sensing market share leader in handsets. The company announced several CapSense design wins in 2010, including LG televisions, Microsoft mice, Epson printers and Pioneer cordless phones.

USB Controllers. Cypress is the market leader in USB with more than one billion devices shipped. USB provides the primary connection between a PC and peripherals, including keyboards, mice, printers, joysticks, scanners and modems. It is also used to connect various non-PC systems, such as handheld games, digital still cameras and MP3 players. The USB standard facilitates a "plug-and-play" architecture that enables instant recognition and interoperability when a USB-compatible peripheral is connected to a system. We offer a full range of USB solutions, including low-speed (1.5 Mbps), full-speed (12 Mbps) and high-speed (480 Mbps) USB products. We also offer a variety of USB hubs, transceivers, serial interface engines and embedded-host products for a broad range of applications. Cypress is currently working on its next-generation USB 3.0 products, which are set to begin sampling in 2011.

WirelessUSB™. Designed for short-range wireless connectivity, WirelessUSB enables personal computer peripherals, gaming controllers, remote controls, toys, and other point-to-point or multipoint-to-point applications to "cut the cord" with a low-cost, 2.4-GHz wireless solution. The WirelessUSB system acts as a USB human interface device, so the connectivity is transparent to the designer at the operating system level. WirelessUSB also operates as a simple, cost-effective wireless link in a host of other applications including industrial, consumer, and medical markets.

Programmable Clocks. Programmable timing solutions such as our InstaClock device combine high performance with the flexibility and fast time to market of field-programmable devices at a cost that is competitive against custom clocks at equivalent volumes. Working with our easy-to-use CyberClocks software, designers can optimize device parameters such as drive strength, phased-lock loop bandwidth and crystal input capacitive loading. Our programmable clocks are ideal for devices requiring multiple frequencies including Ethernet, PCI, USB, HDTV, and audio applications. In 2009, Cypress introduced the FleXO™ family of high-performance clock generators that can be instantly programmed in the factory or field to any frequency up to 650 MHz, accelerating time to market and improving manufacturing quality.

RoboClock Clock Buffers. Our RoboClock family of clock buffers feature programmable output skew, programmable multiply/divide factor, and user-selectable redundant reference clocks that provide fault tolerance. Designers can control output skew and multiply and divide factors to help accommodate last-minute design changes. RoboClock offers a high-performance timing solution for designers of communications, computation and storage networking applications.

Data Communications Division:

The Data Communications Division focuses on West Bridge communication products, peripheral controllers, dual-port interconnects, programmable logic devices and PowerPSoC® which includes our EZ-Color™ LED lighting solutions. Our communication products are primarily used in the networking and telecommunications market. This division also makes a line of legacy switches, cable drivers and equalizers for the professional video market. Our specialty memory products consist of first-in, first-out and dual port memories. First-in, first-out memories are used for applications such as switches and routers, and dual port memories are used in switching applications and handsets, including networking switches and routers, cellular base stations, mass storage devices, mobile handsets, and telecommunication equipment.

The following table summarizes the markets and applications related to our products in this segment:

Products	Markets	Applications
Peripheral bridge controllers	Consumer, mobile handsets	Cellular phones, portable media players, personal digital assistants, digital cameras and printers.
Dual-port memories	Networking, telecommunication	Medical and instrumentation, storage, wireless infrastructure, military communications, image processors and base stations.
First-in, first-out ("FIFO") memories	Video, data communications, telecommunications, networking	Video, data communications, telecommunications, and network switching/routing.
Physical layer devices	Data communications, consumer	Converters, professional video cameras, production switchers and video routers and servers, encoders and decoders.
Programmable logic devices	Storage, military	Storage and military.
PowerPSoC® controllers	Industrial, lighting	LEDs, motors and other power applications.
EZ-Color LED controllers	Architecture, entertainment	Flashlights, architectural lighting, general signage and entertainment lighting.

West Bridge® Peripheral Bridge Controllers. Our West Bridge products enable direct connection between peripherals, creating ultra-fast transfers while offloading the main processor from data-intensive operations. The West Bridge family complements the main processor by adding support for next generation and latest standards and allowing simultaneous transfers between peripherals and processing elements. The inaugural product in the West Bridge family is Antioch. Antioch is a three-ported device designed specifically for handsets to provide a direct path from PC to handset mass storage, freeing baseband/applications processor resources by limiting its involvement in these high-density transfers. Additionally, Antioch creates simultaneous usage models by adding dedicated paths between the three ports to literally create multiple usage models such as using the handset as a modem, while downloading multimedia files, and playing music. The most recent addition to the West Bridge family is Astoria which features Multi-Level Cell (MLC) NAND Flash support that enables designers to use lowest-cost, highest-density flash storage. In 2009, Cypress also introduced Turbo-MTP™, a faster media transfer protocol module for West Bridge controllers. Users can transfer a movie from a PC to their handheld device in less than 45 seconds—four times faster than the next-best alternative.

Dual-Port Memories. Dual ports, which can be accessed by two different processors or buses simultaneously, target shared-memory and switching applications, including networking switches and routers, cellular base stations, mass-storage devices and telecommunications equipment. We offer a portfolio of more than 160 synchronous and asynchronous dual-port interconnects ranging in densities from 8 Kbits to 36 Mbits with speeds of up to 250 MHz. Our dual ports are the compelling solutions for interprocessor communication in a broad range of applications. For high-volume multiprocessor applications (wireless handsets, PDAs, consumer)

we offer the MoBL dual port, providing a low cost, quick time-to-market interconnect solution with the industry's lowest power-consumption.

FIFO Memories. FIFOs are used as a buffer between systems operating at different frequencies. Our high-performance FIFO products provide the ideal solution to interconnect problems such as flow control, rate matching, and bus matching. Our FIFO portfolio is comprised of more than 100 synchronous and asynchronous memories in a variety of speeds, bus widths, densities and packages. Using industry-standard pinouts, these products are easily integrated into new and existing designs. Unidirectional, bidirectional, tri-bus and double sync configurations are available with built-in expansion logic and message-passing capabilities for various markets including video, data communications, telecommunications and network switching/routing.

Physical Layer Devices. Our portfolio includes HOTLink, HOTLinkDX and HOTLinkII. These transceiver families cover data transmission rates of 50 Mbps up to 1.5 Gbps. These flexible devices are ideal for proprietary serial backplane applications. They also comply with many industry standards such as 10 Gbps Ethernet, gigabit Ethernet, Fibre Channel, Enterprise System Connection, Digital Video Broadcast, and high-definition television. In addition, we supply a chipset for the transmission of digital video signals. This chipset is based on our HOTLink family and is widely used in professional digital video equipment such as editing, routing, recording and storage.

Programmable Logic Devices. System logic performs non-memory functions such as floating-point mathematics or the organization and routing of signals throughout a computer system. We manufacture several types of programmable logic devices that facilitate the replacement of multiple standard logic devices with a single programmable device, increasing flexibility and reducing time to market. Our wide range of programmable logic devices includes products ranging from 32 to more than 3,000 macrocells.

PowerPSoC®. Cypress's PowerPSoC family of embedded power controllers is the industry's first fully integrated single-chip solution for both controlling and driving high-power LEDs and other power applications such as small motors. The PowerPSoC family integrates four constant-current regulators and four 32V MOSFETs with Cypress's PSoC® programmable system-on-chip, which includes a microcontroller, programmable analog and digital blocks and memory. This uniquely high level of integration provides customers with a single-chip solution for high-quality LED-based lighting products and extends into other embedded applications such as white goods and industrial control.

Powerline Communications Solutions. In 2010, Cypress introduced a PSoC-based programmable Powerline Communication (PLC) solution that enables the reliable transmission of command and control data over high-and low-voltage power lines. The hardware platform combines a modem, network protocol and application code with PSoC's programmable analog and digital circuitry, providing an integrated solution that speeds time-to-market. Key applications include smart metering, LED lighting, energy management and solar markets. Cypress's PLC solution was named a 2010 Editor's Choice award recipient by *Industrial Embedded Systems Magazine*.

EZ-Color Controllers. Our EZ-Color family of devices offers the ideal control solution for high brightness light-emitting diode ("LED") applications requiring intelligent dimming control. EZ-Color devices combine the power and flexibility of PSoC with Cypress's precise illumination signal modulation drive technology providing lighting designers a fully customizable and integrated lighting solution platform.

Memory and Imaging Division:

Cypress signed a definitive agreement to sell its high-performance custom and standard CMOS image sensor business to ON Semiconductor Corporation and it is expected to close in the first quarter of 2011. Our memory business designs and manufactures SRAM products and nonvolatile SRAMs (nvSRAMs) which are used to store and retrieve data in networking, wireless infrastructure and handsets, computation, consumer, automotive, industrial and other electronic systems. Cypress is the world's No.1 supplier of SRAMs. It maintained its market leadership in 2010, as its portfolio of high-performance, synchronous SRAMs benefitted from strength in the communications and industrial markets and additional share gains with strategic global customers. Our memory products target a variety of markets including networking, telecommunications, wireless communications and consumer applications. Our image sensor products are used in high-end industrial, medical and aeronautic applications.

The following table summarizes the markets and applications related to our products in this segment:

Products	Markets	Applications
Asynchronous SRAMs	Consumer, networking	Consumer electronics, switches and routers, automotive, peripheral and industrial electronics.
Synchronous SRAMs	Base station, networking	Wireline networking, wireless base stations, high bandwidth applications and industrial electronics.
nvSRAMs	Servers, industrial	Redundant array of independent disk servers, point of sale terminals, set-top boxes, copiers, industrial automation, printers, single-board computers and gaming.

Asynchronous SRAMs. We manufacture a wide selection of fast asynchronous and micropower SRAMs with densities ranging from 16 Kbits to 64 Mbits. These memories are available in many combinations of bus widths, packages and temperature ranges including automotive. They are ideal for use in point-of-sale terminals, gaming machines, network switches and routers, IP phones, IC testers, DSLAM Cards and various automotive applications. In 2010, Cypress introduced the market's first 32-bit and 64-bit fast asynchronous SRAMs targeting storage servers, switches, routers, test and military equipment.

Synchronous SRAMs. Our high-speed synchronous SRAMs include standard synchronous pipelined, No Bus Latency (NoBL), Quad Data Rate, and Double Data Rate SRAMs, and are typically used in networking applications. NoBL synchronous SRAMs are optimized for high-speed applications that require maximum bus bandwidth up to 250 MHz, including those in the networking, instrumentation, video and simulation businesses. Double Data Rate (DDR) SRAMs target network applications and servers that operate at data rates up to 550 MHz. Quad Data Rate™ (QDR®) products are targeted toward next-generation networking applications, particularly switches and routers that operate at data rates beyond 550 MHz and offer twice the bus bandwidth of DDR SRAMs. In 2009, Cypress introduced the industry's first 65-nm QDR and DDR SRAMs. The 144-Mbit and 72-Mbit devices, developed with foundry partner UMC, feature the industry's fastest clock speeds and operate at half the power of their 90-nm predecessors. They are ideal for networking, medical imaging and military signal processing.

nvSRAMs. nvSRAMs are products that operate similar to standard asynchronous SRAM and reliably store data into an internal nonvolatile array during unanticipated power downs. The competitive advantage of an nvSRAM is infinite endurance and much faster read/write speed than a serial flash or EEPROM. Additionally, these high-speed nonvolatile SRAM devices can store data for more than 20 years without battery backup. These memories are ideal for redundant array of independent disks ("RAID") storage arrays, metering applications, multifunction printers and other industrial applications, such as PLCs. In 2009, Cypress introduced a 1-Mbit serial nonvolatile SRAM family and new 4-Mbit and 8-Mbit parallel nvSRAMs with an integrated real-time clock, providing failsafe battery-free data backup in mission-critical applications.

Emerging Technologies:

Cypress's Emerging Technology Division consists of businesses outside our core semiconductor business. It includes majority-owned subsidiaries Cypress Envirosystems and AgigA Tech Inc., foundry services, other development stage companies and certain corporate expenses. In 2010, two of Cypress's Emerging Technologies businesses: The Optical Navigation System (ONS) business unit and the China Business Unit, achieved their first $1 million revenue quarters, as projected in the 2009 Annual Report.

Cypress Envirosystems, Inc. , a majority owned Cypress subsidiary formed in fiscal 2007, Cypress Envirosystems (formerly Cypress Systems Corporation) develops and markets new technologies for older commercial and industrial plants and buildings to reduce cost, improve productivity, extend asset life, and improve safety and compliance. It combines a broad portfolio of unique Cypress technologies with its deep domain and applications experience in Industrial Automation and HVAC to create a range of unique solutions. Its products include a wireless pneumatic thermostat that enables remote temperature sensing and control, a wireless

gauge reader that clips onto the face of existing gauges to capture and transmit data, a wireless steam trap monitor that detects leaks and failures, and a wireless transducer reader that provides energy-use characterization and baseline data for audits. It has formed a strategic partnership with Honeywell to sell a custom version of its Wireless Gauge Reader under the Honeywell brand label. In 2010, Cypress Envirosystems was named one of the top innovative "green" companies by the California Public Utilities Commission. Its Wireless Gauge Reader was awarded the 2010 Golden Gas Award from *Gases & Instrumentation International Magazine* for technical innovation.

AgigA Tech, Inc. AgigA Tech, a majority owned Cypress subsidiary, is in industry pioneer in the development of high-speed, high-density, battery-free non-volatile memory solutions. Its flagship product, AGIGARAM™, merges NAND Flash, DRAM and an ultracapacitor power source into a highly reliable non-volatile memory subsystem, delivering unlimited read/write performance at RAM speeds, while also safely backing up all data when power is interrupted. The patent pending approach couples innovations in power management, high-speed data movement and systems knowledge, while leveraging high volume readily available memory technologies to provide a unique non-volatile solution scalable to very high densities. In 2010, AgigA Tech's AGIGARAM was recognized as the Most Innovative New Product by in the Hardware and General Technology category at the 23rd CONNECT Awards. AgigA Tech also introduced the industry's highest-density, non-volatile DDR3 memories with densities up to 8 Gbytes.

Optical Navigation Sensors. ("ONS") Our OvationONS™ laser-based optical navigation sensor replaces mechanical trackball types of user interfaces in Smartphones, Tablet PCs, Remote Controls, e-book readers, wired and wireless mice and industrial applications. The sensor delivers fast and precise tracking on more surfaces than other sensors on the market, using our patented OptiCheck™ technology, which offers outstanding accuracy and variable resolution ranging from 800 to 2,400 counts per inch. Based on Cypress's PSoC programmable system-on-chip platform, the OvationONS™ II "mouse-on-a-chip" solution is the first product combining a precision laser navigation sensor with an optical signal processor and microcontroller on a single chip.

China Business Unit. Centered in Shanghai, Cypress's China Business Unit designs and produces semiconductor solutions for the China marketplace. Early product successes include PSoC-based solutions for electric bicycles, consumer electronics, and white goods. The China Business Unit is also licensing Cypress technology to foundries throughout Asia. The unit reported its first $2 million quarter in Q2 2010.

Acquisitions and Divestitures

We are committed to the ongoing evaluation of strategic opportunities and, where appropriate, to the acquisition of additional products, technologies or businesses that are complementary to, or broaden the markets for, our products. At the same time, we continuously evaluate our businesses to make sure that they are well-aligned with our programmable and proprietary products strategy. Businesses that do not align with our strategy are considered for divestment.

On January 27, 2011, we signed a definitive agreement for ON Semiconductor Corporation to acquire our Image Sensor business in an all cash transaction for approximately $31.4 million. The transaction is expected to close by the end of the first quarter of fiscal 2011, subject to customary closing conditions.

Manufacturing

During fiscal 2010, we manufactured approximately 57% of our semiconductor products at our wafer manufacturing facility in Bloomington, Minnesota. External wafer foundries, mainly in Asia, manufactured the balance of our products.

We have a strategic foundry partnership with Grace Semiconductor Manufacturing Corporation ("Grace"), located in Shanghai, China. Under the terms of the agreement, we have transferred certain proprietary process

technologies to Grace and provided additional production capacity to augment output from our manufacturing facilities. During fiscal 2006 and 2007, we completed the transfer of our 0.35-micron SONOS, 0.13-micron SRAM and LOGIC processes and began purchasing products from Grace that were manufactured using these processes.

In conjunction with the agreement, we have entered into a series of guarantees with a financing company for the benefit of Grace. As of January 2, 2011, Grace had no outstanding rental payments and the outstanding irrevocable letters of credit totaled $2.6 million.

We conduct assembly and test operations at our highly automated assembly and test facility in the Philippines. This facility accounted for approximately 59% of the total assembly output and 73% of the total test output in fiscal 2010. Various subcontractors in Asia performed the balance of the assembly and test operations.

Our facility in the Philippines performs assembly and test operations manufacturing volume products and packages where our ability to leverage manufacturing costs is high. This facility has nine fully integrated, automated manufacturing lines enabling complete assembly and test operations with minimal human intervention. These autolines have shorter manufacturing cycle times than conventional assembly/test operations, which enable us to respond more rapidly to changes in demand.

Research and Development

Research and development efforts are focused on the development and design of new semiconductor products, as well as the continued development of advanced software platforms primarily for our programmable solutions. Our goal is to increase efficiency in order to maintain our competitive advantage. Our research and development organization works closely with our manufacturing facilities, suppliers and customers to improve our semiconductor designs and lower our manufacturing costs. During fiscal 2010, 2009 and 2008, research and development expenses totaled $176.8 million, $181.2 million and $193.5 million, respectively.

We have both central and division-specific design groups that focus on new product creation and improvement of design methodologies. These groups conduct ongoing efforts to reduce design cycle time and increase first pass yield through structured re-use of intellectual property blocks from a controlled intellectual property library, development of computer-aided design tools and improved design business processes. Design and related software development work primarily occurs at design centers located in the United States, Europe, India and China.

Customers, Sales and Marketing

We sell our semiconductor products through several channels: sales through global domestically-based distributors; sales through international distributors, trading companies and manufacturing representative firms; and sales by our sales force to direct original equipment manufacturers. Our marketing and sales efforts are organized around four regions: North America, Europe, Japan and Asia/Pacific. We also have a strategic-account group and a contract-manufacturing group which are responsible for specific customers with worldwide operations. We augment our sales effort with field application engineers, specialists in our products, technologies and services who work with customers to design our products into their systems. Field application engineers also help us to identify emerging markets and new products.

One global distributor, Avnet, Inc., accounted for 17% of consolidated accounts receivable as of January 2, 2011. One global distributor, Avnet, Inc., accounted for 16% and one contract manufacturer of an OEM, Flextronics International Ltd., accounted for 11% of consolidated accounts receivable as of January 3, 2010. One global distributor, Avnet, Inc., accounted for 13% of consolidated accounts receivable as of December 28, 2008.

Two global distributors, Avnet, Inc. and Arrow Electronics, Inc., accounted for 15% and 10%, respectively, of our total revenues for fiscal 2010. One global distributor, Avnet, Inc., accounted for 14% of our total revenues

for fiscal 2009. Two global distributors, Avnet, Inc. and Arrow Electronics, Inc., accounted for 13% and 11%, respectively, of our total revenues for fiscal 2008. There was no single end customer in fiscal 2010, 2009 or 2008 that accounted for more than 10% of total revenue.

Backlog

Our sales typically rely upon standard purchase orders for delivery of products with relatively short delivery lead times. Customer relationships are generally not subject to long-term contracts. However, we have entered into long-term supply agreements with certain customers. These long-term supply agreements generally do not contain minimum purchase commitments. Products to be delivered and the related delivery schedules under these long-term contracts are frequently revised to reflect changes in customer needs. Accordingly, our backlog at any particular date is not necessarily representative of actual sales for any succeeding period and we believe that our backlog is not a meaningful indicator of future revenues.

Competition

The semiconductor industry is intensely competitive and continually evolving. This intense competition results in a challenging operating environment for most companies in these industries. This environment is characterized by potential erosion of product sale prices over the life of each product, rapid technological change, limited product life cycles, greater brand recognition and strong domestic and foreign competition in many markets. Our ability to compete successfully depends on many factors, including:

- our success in developing new products and manufacturing technologies;
- delivery, performance, quality and price of our products;
- diversity of our products and timeliness of new product introductions;
- cost effectiveness of our design, development, manufacturing and marketing efforts;
- quality of our customer service, relationships and reputation;
- pace at which customers incorporate our products into their systems; and
- number and nature of our competitors and general economic conditions.

We face competition from domestic and foreign semiconductor manufacturers, many of which have advanced technological capabilities and have increased their participation in the markets in which we operate. We compete with a large number of companies primarily in the telecommunications, networking, data communications, computation and consumer markets. Companies who compete directly with our semiconductor businesses include, but are not limited to, Altera, Analog Devices, Applied Micro Circuits, Atmel, Integrated Device Technology, Integrated Silicon Solution, Lattice Semiconductor, Linear Technology, Maxim Integrated Products, Inc., Microchip Technology, National Semiconductor, Pericom Semiconductor, PMC-Sierra, Renesas, Samsung, Silicon Laboratories, Standard Microsystems, Synaptics, Texas Instruments and Xilinx.

Environmental Regulations

We use, generate and discharge hazardous chemicals and waste in our research and development and manufacturing activities. United States federal, state and local regulations, in addition to those of other foreign countries in which we operate, impose various environmental rules and obligations, which are becoming increasingly stringent over time, intended to protect the environment and in particular regulate the management and disposal of hazardous substances. We also face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the "RoHS Directive") and similar legislation in China and California. We are committed to the continual improvement of our environmental systems and controls. However, we cannot provide assurance that we have been, or will at all times be, in complete compliance with all environmental laws and regulations. Other laws impose liability on owners and operators of real property for any contamination of the property even if they did not cause or know of

the contamination. While to date we have not experienced any material adverse impact on our business from environmental regulations, we cannot provide assurance that environmental regulations will not impose expensive obligations on us in the future, or otherwise result in the incurrence of liability such as the following:

- a requirement to increase capital or other costs to comply with such regulations or to restrict discharges;
- liabilities to our employees and/or third parties;
- business interruptions as a consequence of permit suspensions or revocations or as a consequence of the granting of injunctions requested by governmental agencies or private parties; and

For example, we are currently working with the Texas Commission on Environmental Quality in connection with the shutdown activities related to our Texas manufacturing facility, and will take all reasonable steps to ensure the Texas facility closure complies with all applicable federal, state and local environmental laws.

Intellectual Property

We have an active program to obtain patent and other intellectual property protection for our proprietary technologies, products and other inventions that are aligned with our strategic initiatives. We rely on a combination of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position in the domestic and international markets we serve. As of the end of fiscal 2010, we had approximately 1800 issued patents and approximately 1,100 additional patent applications on file domestically and internationally. In addition, in fiscal 2011, we are preparing to file up to 120 new patent applications in the United States and 30 foreign applications in countries such as China, Taiwan, Korea and India. The average remaining life of our patent portfolio is approximately 10 years.

In addition to factors such as innovation, technological expertise and experienced personnel, we believe that patents are increasingly important to remain competitive in our industry and to facilitate the entry of our proprietary products, such as PSoC, into new markets. As our technologies are deployed in new applications and we face new competitors, we will likely subject ourselves to new potential infringement claims. Patent litigation, if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources, however, we are committed to vigorously defending and protecting our investment in our intellectual property. Therefore, the strength of our intellectual property program, including the breadth and depth of our portfolio, will be critical to our success in the new markets we intend to pursue.

In connection with our divestiture of unaligned and non-strategic businesses, we performed an analysis of our intellectual property portfolio to ensure we were deriving the full value of our assets. As a result, we are evaluating the sale of certain unaligned patents as well as other monetization models for our patent portfolio.

Financial Information about Geographic Areas

Financial information about geographic area is incorporated herein by reference to Note 20 of Notes to Consolidated Financial Statements under Item 8.

International revenues have historically accounted for a significant portion of our total revenues. Our manufacturing and certain finance operations in the Philippines, as well as our sales and support offices and design centers in other parts of the world, face risks frequently associated with foreign operations, including, but not limited to:

- currency exchange fluctuations, including the weakening of the U.S. dollar;
- the devaluation of local currencies;
- political instability;
- labor issues;
- changes in local economic conditions;
- import and export controls;
- potential shortage of electric power supply; and
- changes in tax laws, tariffs and freight rates.

To the extent any such risks materialize, our business, financial condition or results of operations could be seriously harmed.

Employees

As of January 2, 2011, we had approximately 3,500 employees worldwide, down from approximately 4,400 employees in the third quarter of 2008, as we implemented a broad based restructuring effort and closed our manufacturing facility in Texas. Geographically, approximately 1,200 employees were located in the Philippines, 1,400 employees were located in the United States and 900 employees were located in other countries. Of the total employees, approximately 1,900 employees were associated with manufacturing, 700 employees were associated with research and development, and 900 employees were associated with selling, general and administrative functions.

None of our employees are represented by a collective bargaining agreement, nor have we ever experienced organized work stoppages.

Executive Officers of the Registrant

Certain information regarding each of our executive officers is set forth below:

Name	Age	Position
T. J. Rodgers	62	President, Chief Executive Officer and Director
Brad W. Buss	47	Executive Vice President, Finance and Administration and Chief Financial Officer
Sabbas A. Daniel	48	Executive Vice President, Quality
Paul D. Keswick	53	Executive Vice President, New Product Development, Engineering, IT
Dana C. Nazarian	44	Executive Vice President, Memory and Imaging Division
Cathal Phelan	47	Executive Vice President, Chief Technical Officer
Dinesh Ramanathan	41	Executive Vice President, Data Communications Division
Ronald Sartore	61	Chief Executive Officer, AgigA Tech Inc.
Christopher A. Seams	48	Executive Vice President, Sales and Marketing
Shahin Sharifzadeh	46	Executive Vice President of Worldwide Manufacturing and Operations; President, China Operations
Harry Sim	48	Chief Executive Officer, Cypress Envirosystems
Thomas Surrette	48	Executive Vice President, Human Resources
Norman P. Taffe	44	Executive Vice President, Consumer and Computation Division

T.J. Rodgers is founder of Cypress and has been a Director and its President and Chief Executive Officer since 1982. Mr. Rodgers serves as a director of certain internal subsidiaries, Bloom Energy and SunPower. Mr. Rodgers is also a member of the Board of Trustees of Dartmouth College.

Brad W. Buss joined Cypress in 2005 as Executive Vice President, Finance and Administration and Chief Financial Officer. Prior to joining Cypress, Mr. Buss served as Vice President of Finance at Altera Corporation. Mr. Buss spent seven years as a finance executive with Wyle Electronics, culminating as Chief Financial Officer and Secretary of the Atlas Services division. Mr. Buss was also a member of Cisco Systems' worldwide sales finance team. In addition, Mr. Buss served as Senior Vice President of Finance and Chief Financial Officer and Secretary at Zaffire. Mr. Buss currently serves as a board member of certain internal subsidiaries and CafePress.com, a private company, as well as Tesla Motors.

Sabbas A. Daniel was appointed Executive Vice President of Quality in 2006. Prior to his current position, Mr. Daniel has held various management positions responsible for Cypress's reliability and field quality organizations. Mr. Daniel joined Cypress in 1998.

Paul D. Keswick is Executive Vice President of New Product Development since 1996. Prior to his current position, Mr. Keswick has held various management positions, including Vice President and General Manager for various business divisions. Mr. Keswick has been with Cypress since 1986.

Dana C. Nazarian was named Executive Vice President of Memory and Imaging Division in February 2009. Mr. Nazarian started his career with Cypress in 1988. Prior to his current position, Mr. Nazarian held various management positions, which included oversight of significant operations in our Round Rock, Texas facility and Vice President of our Synchronous SRAM business unit.

Cathal Phelan re-joined Cypress in late 2008 as Executive Vice President and Chief Technical Officer, having left Cypress in early 2006. In 2006, Mr. Phelan left to become Chief Executive Officer/President at Ubicom Inc., a venture capital backed company delivering multi-threaded CPUs. Prior to 2006, Mr. Phelan held a number of engineering and management roles at Cypress, predominantly in design and architecture and then as Executive Vice President for the Data Communications Division. Mr. Phelan originally joined Cypress in 1991, has 37 granted U.S. patents.

Dinesh Ramanathan was named Executive Vice President of Data Communications Division in 2005. Prior to his current appointment, Dr. Ramanathan was a Business Unit Director for the specialty memory and communications business units. Prior to joining Cypress in 2004, Dr. Ramanathan held senior marketing and engineering positions at Raza Microelectronics, Raza Foundries and Forte Design Systems.

Ron Sartore was appointed Chief Executive Officer of AgigA Tech, Inc. in 2007. AgigA Tech, Inc. was originally a subsidiary of Simtek Corporation, a public company Cypress acquired in 2008. Mr. Sartore has over 30 years of experience in the computer and semiconductor fields. Prior to his current role, Mr. Sartore served as an Executive Vice President and director of Simtek Corporation. Prior to tenure at Simtek, Mr. Sartore served as a Vice President of several business units at Cypress, which he joined as a result of Cypress's 1999 acquisition of Anchor Chips, a company Mr. Sartore founded in 1995. Prior to Anchor Chips, Mr. Sartore held various engineering and management roles, and was a founder of Cheetah International, in 1985.

Christopher A. Seams was named Executive Vice President of Sales and Marketing in 2005. Prior to his current appointment, Mr. Seams was Executive Vice President of Manufacturing and Research and Development. Mr. Seams joined Cypress in 1990 and has held a variety of positions in technical and operational management in manufacturing, development and foundry.

Shahin Sharifzadeh is Executive Vice President of Worldwide Manufacturing and Operations, responsible for directing Cypress's process technology R&D, wafer manufacturing, test, assembly and operations worldwide. He is also President of Cypress's China operations, a position he has held since 2008. Prior to his current position, Mr. Sharifzadeh served as Cypress's Vice President of R&D and Wafer Manufacturing. Mr. Sharifzadeh joined Cypress in 1989.

Harry Sim was appointed Chief Executive Officer of Cypress Envirosystems in 2006. Prior to Cypress Envirosystems, Mr. Sim was with Honeywell from 1991 to 2006, where he was most recently the Global Vice-President of Marketing for Honeywell's Industrial Process Control division. During his 15 years with Honeywell, Mr. Sim has held executive positions in general management, strategy, mergers and acquisitions. Prior to Honeywell, Mr. Sim worked at GE, where he was a Payload Director at NASA's Mission Control Center in Houston.

Tom Surrette was named Executive Vice President of Human Resources in September 2008. After working at Philips/Signetics in software, test and product engineering roles, Mr. Surrette joined Cypress in July 1990 and has held a series of engineering, manufacturing and technical management, marketing and product development roles. Mr. Surrette has served as the Business Unit Director for Micropower SRAM and Synchronous SRAM, the Vice President for Non-Volatile Memory and the Sr. Vice President of Worldwide Operations.

Norman P. Taffe was named Executive Vice President of Consumer and Computation Division in 2005. Prior to his current position, Mr. Taffe has held numerous positions, including Marketing Director of the programmable logic and interface products divisions, Managing Director of our mergers and acquisitions and

venture funds, Managing Director of the wireless business unit and most recently, Vice President of the Personal Communications Division. Mr. Taffe joined Cypress in 1989 and currently serves as a board member of the Second Harvest Food Bank.

Available Information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, free of charge on our website at *www.cypress.com*, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Additionally, copies of materials filed by us with the SEC may be accessed at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or at *www.sec.gov*. For information about the SEC's Public Reference Room, contact 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Current unfavorable economic and market conditions, domestically and internationally, may adversely affect our business, financial condition, results of operations and cash flows.

We have significant customer sales both in the U.S. and internationally. We are also reliant upon U.S. and international suppliers, manufacturing partners and distributors. We are therefore susceptible to adverse U.S. and international economic and market conditions, including the challenging economic conditions that have prevailed and continue to prevail in the U.S. and worldwide. The recent turmoil in the financial markets has resulted in dramatically higher borrowing costs which have made it more difficult (in some cases, prohibitively so) for many companies to obtain credit and fund their working capital obligations. If any of our manufacturing partners, customers, distributors or suppliers experiences serious financial difficulties or ceases operations, our business will be adversely affected. In addition, the adverse impact of the credit crisis on consumers, including higher unemployment rates, is expected to adversely impact consumer spending, which will adversely impact demand for consumer products such as certain end products in which our chips are embedded. In addition, prices of certain commodities, including oil, metals, grains and other food products, are volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations and periodic delays in delivery. High or volatile commodity prices increase the cost of doing business and adversely affect consumers' discretionary spending. As a result of the difficulty that businesses (including our customers) may have in obtaining credit, the increasing and/or volatile costs of commodities and the decreased consumer spending that is the likely result of the credit market crisis, unemployment and commodities' price volatility, continued global economic and market turmoil are likely to have an adverse impact on our business, financial condition, results of operations and cash flows.

The trading price of our common stock has been and will likely continue to be volatile due to various factors, some of which are beyond our control, and each of which could adversely affect our stockholders' value.

The trading price of our common stock has been and will likely continue to be volatile due to various factors, some of which are beyond our control, including, but not limited to:

- quarterly variations in our results of operations or those of our competitors;
- announcements by us or our competitors of acquisitions, new products, significant contracts, design wins, commercial relationships or capital commitments;
- the perceptions of general market conditions in the semiconductor industry and global market conditions;
- our ability to develop and market new and enhanced products on a timely basis;
- any major change in our board or management;
- changes in governmental regulations or in the status of our regulatory compliance;

- recommendations by securities analysts or changes in earnings estimates concerning us or our customers or competitors;
- announcements about our earnings or the earnings of our competitors that are not in line with analyst expectations;
- the volume of short sales, hedging and other derivative transactions on shares of our common stock;
- economic conditions and growth expectations in the markets we serve; and
- general economic and credit conditions.

Further, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

We face significant volatility in supply and demand conditions for our products, and this volatility, as well as any failure by us to accurately forecast future supply and demand conditions, could materially and negatively impact our business.

The semiconductor industry has historically been characterized by wide fluctuations in the demand for, and supply of, semiconductors. Demand for our products depends in large part on the continued growth of various electronics industries that use our products, including, but not limited to:

- wireless telecommunications equipment;
- computers and computer-related peripherals;
- memory and image sensors;
- networking equipment and
- consumer electronics including mobile handsets, automotive electronics and industrial controls.

Any downturn or reduction in the growth of these industries could seriously harm our business, financial condition and results of operations.

We order materials and build our products based primarily on our internal forecasts, customer and distributor forecasts and secondarily on existing orders, which may be cancelled under many circumstances. Because our markets are volatile and subject to rapid technological and price changes, our forecasts may be wrongly causing us to make too many or too few of certain products.

Also, our customers frequently place orders requesting product delivery almost immediately after the order is made, which makes forecasting customer demand even more difficult, particularly when supply is abundant. If we experience inadequate demand or a significant shift in the mix of product orders that makes our existing capacity and capability inadequate, our fixed costs per semiconductor produced will increase, which will harm our financial condition and results of operations. Alternatively, if we should experience a sudden increase in demand, we will need to quickly ramp our inventory and/or manufacturing capacity to adequately respond to our customers. If we or our manufacturing partners are unable to ramp our inventory or manufacturing capacity in a timely manner or at all, we risk losing our customers' business, which could have a negative impact on our financial performance and reputation.

In connection with our exit from our Texas facility, we completed a final build of a substantial volume of inventory for certain products previously manufactured at this facility totaling approximately $10.6 million net of sales through fiscal 2010. This inventory now represents our sole source of supply for certain products and is intended to meet forecasted demand for these products for periods ranging from 6 months to 15 years. To the extent that our forecasts of demand for any of these products prove to be inaccurate, we could be unable to meet customer demand and/or write-off significant quantities of obsolete inventory, either of which could adversely affect our business, financial condition and results of operations. For example, in the fourth quarter of 2010 based

upon current economic conditions, we re-evaluated the demand forecast related to these long term builds and determined that an additional excess and obsolete write-down was required. As of January 2, 2011, the total excess and obsolete write-down recorded for this inventory was approximately $5.9 million.

Our business, financial condition and results of operations will be seriously harmed if we fail to compete successfully in our highly competitive industry and markets.

The semiconductor industry is intensely competitive. This intense competition results in a difficult operating environment that is marked by erosion of average selling prices over the life of each product and rapid technological change resulting in limited product life cycles. In order to offset selling price decreases, we attempt to decrease the manufacturing costs of our products and to introduce new, higher priced products that incorporate advanced features. If these efforts are not successful or do not occur in a timely manner, or if our newly introduced products do not gain market acceptance, our business, financial condition and results of operations could be seriously harmed.

Our ability to compete successfully in the rapidly evolving semiconductor technology industry depends on many factors, including:

- our success in developing and marketing new products, software platforms and manufacturing technologies and bringing them to market on a timely basis;
- the quality and price of our products;
- the diversity of our product lines;
- the cost effectiveness of our design, development, manufacturing, support and marketing efforts, especially as compared to our competitors;
- our customer service and customer satisfaction;
- our ability to successfully execute our flexible manufacturing initiative;
- the pace at which customers incorporate our products into their systems, as is sometimes evidenced by design wins;
- the number, strength and nature of our competitors, the markets they target and the rate of their technological advances;
- the success of certain of our development activity which is a part of our Emerging Technologies business segment;
- general economic conditions; and
- our access to and the availability of working capital.

Although we believe we currently compete effectively in the above areas to the extent they are within our control, given the pace of change in the industry, our current abilities are not guarantees of future success. If we are unable to compete successfully in this environment, our business, financial condition and results of operations will be seriously harmed.

Our financial results could be adversely impacted if we fail to develop, introduce and sell new products or fail to develop and implement new technologies.

Like many semiconductor companies, which operate in a highly competitive, quickly changing environment marked by rapid obsolescence of existing products, our future success depends on our ability to develop and introduce new products that customers choose to buy. Our new products, for example PSoC3 and 5 and TrueTouch® are an important strategic focus for us and therefore, they tend to consume a significant amount of resources. The new products the market requires tend to be increasingly complex, incorporating more functions and operating at faster speeds than old products. Increasing complexity generally requires smaller features on a chip. This makes manufacturing new generation of products substantially more difficult than prior generations.

Despite the significant amount of resources we commit to new products, there can be no guarantee that such products will perform as expected or at all, be introduced on time to meet customer schedules or gain market acceptance. If we fail to introduce new product designs in a timely manner or are unable to manufacture products

according to the requirements of these designs, or if our customers do not successfully introduce new systems or products incorporating our products, or market demand for our new products does not materialize as anticipated, our business, financial condition and results of operations could be materially harmed.

The complex nature of our manufacturing activities, our broad product portfolio, and our increasing reliance on third party manufacturers makes us highly susceptible to manufacturing problems and these problems can have a substantial negative impact on us if they occur.

Making semiconductors is a highly complex and precise process, requiring production in a tightly controlled, clean environment. Even very small impurities in our manufacturing materials, defects in the masks used to print circuits on a wafer or other problems in the wafer fabrication process can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to be non-functional. We and, similarly, our third party foundry partners, may experience problems in achieving an acceptable success rate in the manufacture of wafers and the likelihood of facing such difficulties is higher in connection with the transition to new manufacturing methods. The interruption of wafer fabrication or the failure to achieve acceptable manufacturing yields at any of our facilities, or the facilities of our third-party foundry partners, would seriously harm our business, financial condition and results of operations. We may also experience manufacturing problems in our assembly and test operations and in the introduction of new packaging materials.

We are increasingly dependent upon third-parties to manufacture, distribute, generate a significant portion of our sales, fulfill our customer orders and transport our products and problems in the performance or availability of these companies could seriously harm our financial performance.

Although a majority of our products were fabricated in our manufacturing facilities located in Minnesota and the Philippines, we rely to a significant extent on independent contractors to manufacture our products. We expect to increase this reliance on third party manufacturing in the future. For example, in December 2008, we substantially completed the exit of our manufacturing facility in Texas and transferred certain production to our more cost-competitive facility in Minnesota and outside foundries. In addition, if market demand for our products exceeds our internal manufacturing capacity and available capacity from our foundry partners, we may seek additional foundry manufacturing arrangements.

A shortage in foundry manufacturing capacity, which is more likely to occur at times of increasing demand, could hinder our ability to meet demand for our products and therefore adversely affect our operating results. In addition, greater demand for wafers produced by any such foundries without an offsetting increase in foundry capacity raises the likelihood of potential wafer price increases. Our operations would be disrupted if any of our foundry partners terminates its relationship with us or has financial issues and we are unable to arrange a satisfactory alternative to fulfill customer orders on a timely basis and in a cost-effective manner. However, there are only a few foundry vendors that have the capabilities to manufacture our most advanced products. If we engage alternative sources of supply, we may encounter start-up difficulties and incur additional costs. Also, shipments could be delayed significantly while these sources are qualified for volume production.

While a high percentage of our products are assembled, packaged and tested at our manufacturing facility located in the Philippines, we rely on independent subcontractors to assemble, package and test the balance of our products. We cannot be certain that these subcontractors will continue to assemble, package and test products for us on acceptable economic and quality terms or at all and it might be difficult for us to find alternatives if they do not do so.

Our channel partners include distributors and resellers. We continue to expand and change our relationships with our distributors and see an increase in the proportion of our revenues generated from our distributor channel in the future. Worldwide sales through our distributors accounted for approximately 65% of our net sales during 2010. We rely on many distributors to assist us in creating customer demand, providing technical support and other value-added services to our customers, filling customer orders and stocking our products. We face ongoing business risks due to our reliance on our channel partners to create and maintain customer relationships where we have a limited or no direct relationship. Should our relationships with our channel partners or their effectiveness

decline, we face the risk of declining demand which could affect our results of operations. Our contracts with our distributor may be terminated by either party upon notice. In addition, our distributors are located all over the world and are of various sizes and financial conditions. Any disruptions to our distributors' operations such as lower sales, lower earnings, debt downgrades, the inability to access capital markets and higher interest rates could have an adverse impact on our business.

We also rely on independent carriers and freight haulers to move our products between manufacturing plants and our customers' facilities. Transport or delivery problems due to their error or because of unforeseen interruptions in their business due to factors such as strikes, political instability, terrorism, natural disasters or accidents could seriously harm our business, financial condition and results of operations and ultimately impact our relationship with our customers.

If our products contain defects, it could result in loss of future revenue, decreased market acceptance, injury to our reputation and product liability claims.

The programmability of our products, including PSoC products requires use of our proprietary software products. Our future success increasingly depends on our ability to develop and introduce new software products to enhance our programmable portfolio of products. Further, software products occasionally contain errors or defects, especially when they are first introduced or when new versions are released. Our semiconductor products also may contain defects which affect their performance. We cannot be certain that our products are currently or will be completely free of defects and errors. We could lose revenue as a result of product defects or errors. In addition, the discovery of a defect or error in a new version or product may result in the following consequences, among others:

- delayed shipping of the products;
- delay in or failure to achieve market acceptance;
- diversion of development resources;
- damage to our reputation;
- material product liability claims; and
- increased service and warranty costs.

As we gain market acceptance of our proprietary design software, we expect our software products to become more critical to our customers. Thus, a defect or error in our products could result in a significant disruption to our customers' businesses. If we are unable to develop products that are free of defects or errors, our business, results of operations and financial condition could be harmed.

We may be unable to protect our intellectual property rights adequately and may face significant expenses as a result of ongoing or future litigation.

The protection of our intellectual property rights, as well as those of our subsidiaries, is essential to keeping others from copying the innovations that are central to our existing and future products. It may be possible for an unauthorized third party to reverse-engineer or decompile our software products. The process of seeking patent protection can be long and expensive and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, our flexible fab initiative requires us to enter into technology transfer agreements with external partners, providing third party access to our intellectual property and resulting in additional risk. In some cases, these technology transfer and/or license agreements are with foreign companies and subject our intellectual property to foreign countries which may afford less protection and/or result in increased costs to enforce such agreements. We anticipate that we will continue to enter into these kinds of licensing arrangements in the future. Consequently, we may become involved in litigation, in the United States or abroad, to enforce our patents or other intellectual property rights, to protect our trade secrets and know-how, to determine the validity or scope of the proprietary rights of others or to defend against claims of invalidity. We are also from time to time involved in litigation relating to alleged

infringement by us of others' patents or other intellectual property rights. Moreover, a key element of our strategy is to enter new markets with our products. If we are successful in entering these new markets, we will likely be subject to additional risks of potential infringement claims against us as our technologies are deployed in new applications and face new competitors. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, particularly in certain international markets, making misappropriation of our intellectual property more likely. Patent litigation, if necessary or if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Intellectual property litigation is frequently expensive to both the winning party and the losing party and could take up significant amounts of management's time and attention. In addition, if we lose such a lawsuit, a court could find that our intellectual property rights are invalid, enabling our competitors to use our technology, or require us to pay substantial damages and/or royalties or prohibit us from using essential technologies. For these and other reasons, this type of litigation could seriously harm our business, financial condition and results of operations. Also, although in certain instances we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. However, these parties may breach these agreements and we may not have adequate remedies for any breach. In addition, the laws of certain countries in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as the laws of the United States.

If credit market conditions do not continue to improve or if they worsen, it could have a material adverse impact on our investment portfolio.

Recent U.S. sub-prime mortgage defaults and other financial, economic and credit issues have had a significant impact across various sectors of the financial markets, causing global credit and liquidity issues. If the global credit market does not continue to improve or if it deteriorates, our investment portfolio may be impacted and we could determine that some of our investments are impaired. This could materially adversely impact our results of operations and financial condition.

Our investment portfolio includes $23.7 million of auction rate securities which are investments with contractual maturities generally between 20 and 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations with interest rates resetting every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are backed by student loans originated under the Federal Family Education Loan Program (FFELP), which are guaranteed by the United States Federal Department of Education.

As of January 2, 2011, all of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. In the event we need to access these funds associated with failed auctions, they are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, our auction rate securities totaling approximately $23.7 million are classified as long-term investments as of January 2, 2011.

We performed analyses to assess the fair value of the auction rate securities and determined that a decline in value had occurred. Based on certain assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 2, 2011, representing a decline in value of

approximately $2.6 million. If the financial market continues to deteriorate, future downgrades could potentially impact the rating of our auction rate securities.

Unfavorable outcome of litigation pending against us could materially impact our business.

We are currently a party to various legal proceedings, claims, disputes and litigation. For example, we are a defendant in certain alleged patent infringement cases filed by third parties. Our financial results could be materially and adversely impacted by unfavorable outcomes to any of these or other pending or future litigation. There can be no assurances as to the outcome of any litigation. Although we believe we have meritorious defenses to each of these matters and we intend to vigorously defend ourselves, such litigation and other claims are subject to inherent uncertainties and our view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

We face additional problems and uncertainties associated with international operations that could seriously harm us.

International revenues historically accounted for a significant portion of our total revenues. Our manufacturing, assembly, test operations and certain finance operations located in the Philippines, as well as our international sales offices and design centers, face risks frequently associated with foreign operations including but not limited to:

- currency exchange fluctuations;
- the devaluation of local currencies;
- political instability;
- labor issues;
- the impact of natural disasters on local infrastructures;
- changes in local economic conditions;
- import and export controls;
- potential shortage of electric power supply; and
- changes in tax laws, tariffs and freight rates.

To the extent any such risks materialize, our business, financial condition or results of operations could be seriously harmed.

We compete with others to attract and retain key personnel, and any loss of, or inability to attract, such personnel would harm us.

To a greater degree than most non-technology companies, we depend on the efforts and abilities of certain key members of management and other technical personnel. Our future success depends, in part, upon our ability to retain such personnel and to attract and retain other highly qualified personnel, particularly product and process engineers. We compete for these individuals with other companies, academic institutions, government entities and other organizations. Competition for such personnel is intense and we may not be successful in hiring or retaining new or existing qualified personnel. From time to time we have effected restructurings which eliminate a number of positions. Even if such key personnel are not directly affected by the restructuring effort, such terminations can have a negative impact on morale and our ability to attract and hire new qualified personnel in the future. If we lose existing qualified personnel or are unable to hire new qualified personnel, as needed, our business, financial condition and results of operations could be seriously harmed.

Our financial results could be adversely impacted if our Emerging Technologies businesses fail to develop and successfully bring to market new and proprietary products.

We have made a financial and personnel commitment to our Emerging Technologies businesses. Despite the significant amount of resources we commit to our Emerging Technologies businesses, there can be no guarantee

that such Emerging Technologies businesses will perform as expected or at all, launch new products and solutions as expected or gain market acceptance. If our Emerging Technologies businesses' fail to introduce new product and solutions or successfully develop new technologies, or if our customers do not successfully introduce new systems or products incorporating the products or solutions offered by our Emerging Technologies businesses or market demand for the products or solutions offered by our Emerging Technologies businesses do not materialize as anticipated, our business, financial condition and results of operations could be materially harmed.

Any guidance that we may provide about our business or expected future results may differ significantly from actual results.

From time to time we have shared our views in press releases or SEC filings, on public conference calls and in other contexts about current business conditions and our expectations as to potential future results. Correctly identifying the key factors affecting business conditions and predicting future events is inherently an uncertain process especially in these very uncertain economic times. Our analyses and forecasts have in the past and, given the complexity and volatility of our business, will likely in the future, prove to be incorrect and could be materially incorrect. We offer no assurance that such predictions or analyses will ultimately be accurate, and investors should treat any such predictions or analyses with appropriate caution. Any analysis or forecast that we make which ultimately proves to be inaccurate may adversely affect our stock price.

We are subject to many different environmental, health and safety laws, regulations and directives, and compliance with them may be costly.

We are subject to many different international, federal, state and local governmental laws and regulations related to, among other things, the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process and the health and safety of our employees. Compliance with these regulations can be costly. We cannot assure you that we have been, or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with these laws and regulations, we could be fined or otherwise sanctioned by the regulators. Under certain environmental laws, we could be held responsible, without regard to fault, for all of the costs relating to any contamination at our or our predecessors' past or present facilities and at third party waste disposal sites. We could also be held liable for any and all consequences arising out of human exposure to such substances or other environmental damage. For example, certain liabilities could also arise in connection with the shutdown activities related to our Texas manufacturing facility. While we are taking reasonable steps to ensure the Texas facility closure complies with all applicable federal, state and local environmental laws, the shutdown process is complicated, and if issues were to arise, they could delay the sale of certain of the facilities and manufacturing equipment.

Over the last several years, there has been increased public awareness of the potentially negative environmental impact of semiconductor manufacturing operations. This attention and other factors may lead to changes in environmental regulations that could force us to purchase additional equipment or comply with other potentially costly requirements. If we fail to control the use of, or to adequately restrict the discharge of, hazardous substances under present or future regulations, we could face substantial liability or suspension of our manufacturing operations, which could seriously harm our business, financial condition and results of operations.

We face increasing complexity in our product design as we adjust to new and future requirements relating to the material composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the "RoHS Directive") and similar legislation in China and California. Other countries, including at the federal and state levels in the United States, are also considering laws and regulations similar to the RoHS Directive. Certain electronic products that we maintain in inventory may be rendered obsolete if they are not in compliance with the RoHS Directive or similar laws and regulations, which could negatively impact our ability to generate revenue from those products. Our customers and other companies in the supply chain may require us to certify that our products are RoHS compliant.

Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs or decreased revenue, and could require that we redesign or change how we manufacture our products.

Our operations and financial results could be severely harmed by certain natural disasters.

Our headquarters in California, manufacturing facilities in the Philippines and some of our major vendors', subcontractors' and strategic partners' facilities are located near major earthquake faults or are subject to seasonal typhoons or other extreme weather conditions. We have not been able to maintain insurance coverage at reasonable costs to address the risks posed by potential natural disasters. Instead, we rely on self-insurance and preventative/safety measures. If a major earthquake or other natural disaster occurs, we may need to spend significant amounts to repair or replace our facilities and equipment, or make alternative arrangements in the event a vendor, subcontractor or partner's facility or equipment was damaged, and we could suffer damages that could seriously harm our business, financial condition and results of operations.

We maintain self-insurance for certain indemnities we have made to our officers and directors.

Our certificate of incorporation, by-laws and indemnification agreements require us to indemnify our officers and directors for certain liabilities that may arise in the course of their service to us. We self-insure with respect to these indemnifiable claims. If we were required to pay a significant amount on account of these liabilities for which we self-insure, our business, financial condition and results of operations could be seriously harmed.

We may utilize debt financing and such indebtedness could adversely affect our business, financial condition, results of operations, earnings per share and our ability to meet our payment obligations.

We routinely incur indebtedness to finance our operations and at times we have had significant amounts of outstanding indebtedness and substantial debt service requirements. Our ability to meet our payment and other obligations under our indebtedness depends on our ability to generate significant cash flow. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. There is no assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or any amended credit facilities or otherwise, in an amount sufficient to enable us to meet payment obligations under indebtedness we may under take from time to time. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under any indebtedness we owe. As of January 2, 2011, we had no debt outstanding.

We have implemented and will implement future new Oracle-based applications to manage our worldwide financial, accounting and operations reporting, and disruptions in such tools could adversely affect the integrity of our financial data and our business generally.

We have implemented various Oracle-based tools, including but not limited to, a trade management system. We have taken what we believe are appropriate measures and performed testing to ensure the successful and timely implementation. However, implementations of this scope have inherent risks that in the extreme could lead to a disruption in our financial, accounting and operations reporting as well as the inability to obtain access to key financial data, any of which would materially and adversely affect our business.

Changes in U.S. tax legislation regarding our foreign earnings could materially impact our business.

A majority of our revenue is generated from customers located outside the U.S. and a substantial portion of our assets, including employees, are located outside the U.S. U.S. income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-U.S. subsidiaries, because such earnings are

intended to be indefinitely reinvested in the operations of those subsidiaries. In the past, the administration has considered initiatives which could substantially reduce our ability to defer U.S. taxes including: limitations on deferral of U.S. taxation of foreign earnings, eliminate utilization or substantially reduce our ability to claim foreign tax credits, and eliminate various tax deductions until foreign earnings are repatriated to the U.S. If any of these proposals are constituted into law, they could have a negative impact on our financial position and results of operations.

We are subject to examination by the U.S. Internal Revenue Service (the "IRS"), and from time to time we are subject to income tax audits or similar proceedings in other jurisdictions in which we do business, and as a result we may incur additional costs and expenses or owe additional taxes, interest and penalties which will negatively impact our operating result.

We are subject to income taxes in the U.S. and certain foreign jurisdictions, and our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. For example, we are under examination for fiscal 2008, 2007 and 2006 by the IRS. The results of these audits are subject to significant uncertainty and could result in our having to pay additional amounts to the applicable tax authority. This would result in a decrease of our current estimate of unrecognized tax benefits or increase of actual tax liabilities which could negatively impact our financial position, results of operations and cash flows.

In addition, we received a private letter ruling from the U.S. Internal Revenue Service ("IRS"), that the spin-off of SunPower was eligible for tax-free treatment under Internal Revenue Code Section 355. We also obtained an opinion of counsel on certain aspects of the spin-off assumed in the ruling. Both the IRS ruling and the opinion rely on certain representations, assumptions and undertakings, including those relating to the past and future conduct of SunPower's and our business. The SunPower spin-off transaction remains subject to audit, and despite the private letter ruling, the IRS could determine that the distribution should be treated as a taxable transaction. If the distribution fails to qualify for tax-free treatment, it will be treated as a material taxable distribution to our stockholders in an amount equal to the fair market value of SunPower's equity securities (i.e., SunPower's common stock issued to our stockholders) received by them. In addition, we would be required to recognize a material gain in an amount up to the fair market value of the SunPower equity securities that we distributed on the distribution date.

The accumulation of changes in our shares by "5-percent stockholders" could trigger an ownership change for U.S. income tax purposes, in which case our ability to utilize our net operating losses would be limited and therefore impact our future tax benefits.

Cypress is a publicly traded company whose stockholders can change on a daily basis. These changes are beyond our control. The U.S. Internal Revenue Code (Section 382) restricts a company's ability to benefit from net operating loses if a "Section 382 Ownership Change" occurs. An ownership change for purposes of U.S. tax law Section 382 may result from ownership changes that increase the aggregate ownership of "5-percent stockholders," by more than 50 percentage points over a testing period, generally three years ("Section 382 Ownership Change"). To our knowledge, we have not experienced a Section 382 Ownership Change. We cannot give any assurance that we will not experience a Section 382 Ownership Change in future years.

Our ability to add or replace distributors is limited.

Our distributors are contracted by us to perform two primary, yet distinct, functions that are difficult to replace:

- distributors provide logistics support, such as order entry, credit, forecasting, inventory management, and shipment of product, to end customers. The process of integrating systems to allow for electronic data interchange is complex and can be time consuming.
- distributors create demand for our products at the engineering level. This mandates the training of an extended distributor sales force, as well as hiring and training specialized applications engineers skilled in promoting and servicing products at the engineering level.

In addition, our distributors' expertise in the determination and stocking of acceptable inventory levels may not be easily transferable to a new distributor. Also, end customers may be hesitant to accept the addition or replacement of a distributor.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located in San Jose, California. The following tables summarize our primary properties as of the end of fiscal 2010:

Location	Square Footage	Primary Use
Owned:		
United States:		
San Jose, California	310,000	Administrative offices, research and development
Bloomington, Minnesota	337,000	Manufacturing, research and development
Round Rock, Texas	100,000	Property held for sale
Lynnwood, Washington	67,000	Administrative offices, research and development
Asia:		
Cavite, Philippines	221,000	Manufacturing, research and development
Leased:		
Asia:		
Bangalore, India	170,000	Research and development
Shanghai, China	29,000	Research and development
Europe:		
Mechelen, Belgium	23,000	Administrative offices, research and development

During fiscal 2008 as part of a restructuring plan, we exited our manufacturing facility in Round Rock, Texas. We expect to complete the sale of the manufacturing equipment and the facility within the next twelve months. The property was classified as held for sale as of January 2, 2011. See Note 11 of Notes to Consolidated Financial Statements under Item 8 for further discussion.

We have additional leases for sales offices and design centers located in the United States, Asia and Europe. We believe that our current properties are suitable and adequate for our foreseeable needs. We may need to exit facilities as we continue to evaluate our business model and cost structure.

ITEM 3. LEGAL PROCEEDINGS

In October 2006, we received a subpoena related to the Antitrust Division of the Department of Justice ("DOJ")'s investigation into the SRAM market. In December 2008, the DOJ closed its two year investigation without any charge or allegation brought against us. As a result of the DOJ's investigation, in October 2006, we, along with a majority of the other SRAM manufacturers, were named in numerous consumer class action suits that are now consolidated in the U.S. District Court for the Northern District of California. The direct and indirect purchaser classes were certified. We aggressively defended ourselves in this matter, and as a result, we were able to reach favorable resolutions with both the direct and indirect purchaser classes and expect the court to dismiss the case by the end of our first quarter in fiscal 2011. We are also named in purported consumer antitrust class action suits in three provinces of Canada; however, those cases have not been materially active over the last three years.

On August 21, 2009, X-Point Technologies filed a single patent infringement case against us and 29 other defendants in the U.S. District Court in Delaware. The patent at issue covers X-Point's technology for data

transfer between storage devices and network devices without the use of a CPU or memory. The parties are currently engaged in discovery. X-Point has made no specific demand for relief in this matter. We believe we have meritorious defenses to the allegations set forth in the complaint and will vigorously defend ourselves in this matter.

On January 21, 2011, Avago Technologies filed a patent infringement case against us in the U.S. District Court in Delaware. The three patents at issue cover Avago's touch technology, including finger navigation. Avago has made no specific demand for relief in this matter. We believe we have meritorious defenses to the allegations set forth in the complaint and will vigorously defend ourselves in this matter.

We are currently a party to various other legal proceedings, claims, disputes and litigation arising in the ordinary course of business. Based on the our own investigations, we believe the ultimate outcome of our current legal proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of the litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

ITEM 4. [RESERVED]

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information, Holders of Common Equity, Dividends and Performance Graph

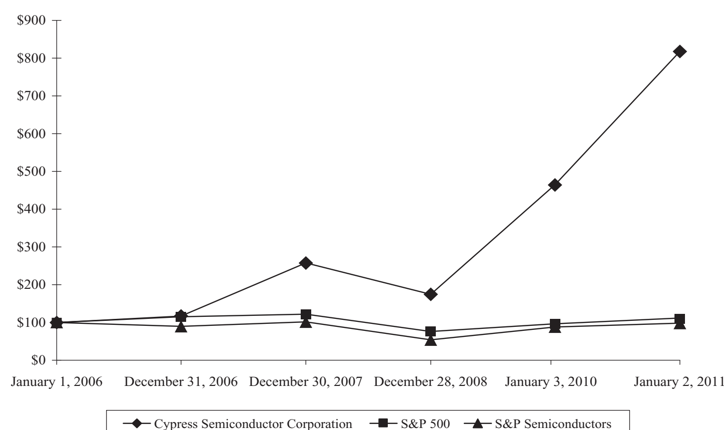
Effective November 12, 2009, our common stock is listed on the NASDAQ Global Select Market under the trading symbol "CY." Prior to November 12, 2009, our common stock was listed on the New York Stock Exchange. The following table sets forth the high and low per share prices for our common stock:

	Low	High
Fiscal 2010:		
Fourth quarter	$ 12.39	$ 18.58
Third quarter	$ 9.94	$ 13.14
Second quarter	$ 10.03	$ 13.62
First quarter	$ 10.05	$ 12.43
Fiscal 2009:		
Fourth quarter	$ 8.43	$ 10.79
Third quarter	$ 8.61	$ 11.27
Second quarter	$ 6.74	$ 9.33
First quarter	$ 3.87	$ 6.94

As of February 17, 2011, there were approximately 1,587 holders of record of our common stock.

We have not paid cash dividends historically and may do so in the future.

The following line graph compares the yearly percentage change in the cumulative total stockholder return on our common stock against the cumulative total return of the Standard and Poor ("S&P") 500 Index and the S&P Semiconductors Index for the last five fiscal years:



	January 1, 2006	December 31, 2006	December 30, 2007	December 28, 2008	January 3, 2010	January 2, 2011
Cypress*	$ 100	$ 118	$ 258	$ 176	$ 466	$ 819
S&P 500 Index	$ 100	$ 116	$ 122	$ 77	$ 97	$ 112
S&P Semiconductors Index	$ 100	$ 91	$ 102	$ 55	$ 89	$ 99

* All closing prices underlying this table have been adjusted for stock splits and stock dividends including the SunPower spin.

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plan Information:

The following table summarizes certain information with respect to our common stock that may be issued under the existing equity compensation plans as of January 2, 2011:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
	(In thousands, except per-share amounts)		
Equity compensation plans approved by shareholders	39,500 (1)	$ 5.36 (3)	13,500 (2)
Equity compensation plans not approved by shareholders	11,500	$ 5.85	—
Total	51,000	$ 5.51 (3)	13,500

(1) Includes 15.0 million shares of restricted stock units and restricted stock awards granted.
(2) Includes 10.1 million shares available for future issuance under Cypress's 1994 Amended Stock Option Plan and 3.4 million shares available for future issuance under Cypress's Employee Stock Purchase Plan.
(3) Excludes impact of 15.0 million shares of restricted stock units and restricted stock which have no exercise price.

See Note 9 of Notes to Consolidated Financial Statements under Item 8 for further discussion of Cypress's stock plans.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock Repurchase Program:

In fiscal 2008, our Board of Directors (the "Board") approved up to a total of $600.0 million that may be used for stock purchases under the stock repurchase program. During fiscal 2008, we used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. During fiscal 2009, we used $46.3 million to repurchase approximately 5.8 million shares at an average share price of $8.00. In light of certain tax constraints placed on us in connection with the Spin-off, we had no intentions of repurchasing additional stock under this program. Accordingly, on October 28, 2009, the Audit Committee of the Board voted to rescind the remaining $178.1 million available under the program for additional repurchases.

On October 21, 2010, our Board authorized a $600.0 million stock buyback program. The program allows us to purchase our common stock or enter into equity derivative transactions related to our common stock. The timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of our common stock, regulatory, legal, and contractual requirements, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at our discretion.

The following table sets forth information with respect to repurchases of our common stock made during the fourth quarter of fiscal 2010:

Periods	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Total Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
	(In thousands, except per-share amounts)			
October 4, 2010—October 31, 2010	—	$ —	—	$ 600,000
November 1, 2010—November 28, 2010	455	$ 14.95	455	$ 593,197
November 29, 2010—January 2, 2011	1,056	$ 18.09	1,056	$ 574,089
As of January 2, 2011	1,511	$ 17.15	1,511	

In January 2011, we used $25.9 million to repurchase approximately 1.4 million shares at an average price of $18.55.

Yield Enhancement Program:

On October 28, 2009, the Audit Committee approved a yield enhancement strategy intended to improve the yield on our available cash. As part of this program, the Audit Committee authorized us to enter into short-term yield enhanced structured agreements, typically with maturities of 90 days or less, correlated to our stock price. Under the agreements we entered into to date, we pay a fixed sum of cash upon execution of an agreement in exchange for the financial institution's obligations to pay either a pre-determined amount of cash or shares of our common stock depending on the closing market price of our common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our cash investment returned plus a yield substantially above the yield currently available for short-term cash investments. If the closing market price is at or below the pre-determined

price, we will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on our stock price and does not require us to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

We entered into a yield enhanced structured agreement based upon a comparison of the yields available in the financial markets for similar maturities against the expected yield to be realized per the structured agreement and the related risks associated with this type of arrangement. We believe the risk associated with these types of agreements is no different than alternative investments available to us with equivalent counterparty credit ratings. All counterparties to a yield enhancement program have a credit rating of at least Aa2 or A as rated by major independent rating agencies. For all such agreements that matured to date, the yields of the structured agreements were far superior to the yields available in the financial markets primarily due to the volatility of our stock price and the pre-payment aspect of the agreements. The counterparty is willing to pay a premium over the yields available in the financial markets due to the structure of the agreement.

The following table summarizes the activity of our settled yield enhanced structured agreements:

Periods	Aggregate Price Paid	Total Proceeds Received Upon Maturity	Total Number of Shares Received Upon Maturity	Average Price Paid per Share
	(In thousands, except per-share amounts)			
Fiscal 2009	$ 68,017	$ 69,065	—	$ —
Fiscal 2010	207,882	217,489	10,000	11.49
Total	$ 275,899	$ 286,554	10,000	$ 11.49

In December 2010, we entered into a short-term yield enhanced structured agreement with a maturity of 45 days or less. The agreement remained unsettled at January 2, 2011. In January 2011, we settled this agreement and received approximately $47.0 million in cash. On February 9, 2011 we entered into a short-term yield enhanced structured agreement with a maturity of less than 45 days at an aggregate price of approximately $52.5 million.

ITEM 6. SELECTED FINANCIAL DATA

Our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statement of Operations Data. The assets, liabilities and noncontrolling interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheet Data.

During the third quarter of 2009, we identified historically immaterial errors related to the value of our raw material inventory balances located in the Philippines. We assessed the materiality of these errors on prior period financial statements and concluded that the errors were not material to any prior annual or interim periods but the cumulative error would be material in the third quarter of fiscal 2009, if the entire correction was recorded in the third quarter. Accordingly, we have revised certain prior year amounts and balances to allow for the correct recording of these transactions. See Note 2 of Notes to Consolidated Financial Statements under Item 8 for a detailed discussion.

In addition, certain prior year balances have been restated to conform to current year presentation including the retrospective application of adopting new accounting guidance for convertible debt instruments with cash settlement features and the presentation for noncontrolling interests in the consolidated financial statements. We have retrospectively applied these changes for all periods presented.

The following selected consolidated financial data is not necessarily indicative of results of future operations, and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7, and the Consolidated Financial Statements and Notes to Consolidated Financial Statements under Item 8:

	Year Ended				
	January 2, 2011	January 3, 2010	December 28, 2008	December 30, 2007	December 31, 2006 (1)(2)
	(In thousands, except per-share amounts)				
Consolidated Statement of Operations Data:					
Revenues	$ 877,532	$ 667,786	$ 765,716	$ 821,597	$ 855,043
Cost of revenues	$ 388,359	$ 397,204	$ 426,284	$ 448,847	$ 451,195
Operating income (loss)	$ 87,864	$ (149,255)	$ (471,433)	$ 6,433	$ 6,285
Gain on sale of SunPower common stock	$ —	$ —	$ 192,048	$ 373,173	$ —
Income (loss) from continuing operations	$ 75,742	$ (150,424)	$ (319,262)	$ 366,862	$ (7,396)
Income from discontinued operations attributable to Cypress	$ —	$ —	$ 34,386	$ 16,057	$ 20,466
Income from discontinued operations—noncontrolling interest, net of taxes	$ —	$ —	$ 34,154	$ 12,681	$ 6,373
Noncontrolling interest, net of income taxes	$ (866)	$ (946)	$ (311)	$ (19)	$ (4)
Net income (loss)	$ 74,876	$ (151,370)	$ (251,033)	$ 395,581	$ 19,439
Less: net income (loss) attributable to noncontrolling interest	$ 866	$ 946	$ (33,843)	$ (12,662)	$ (6,369)
Net income (loss) attributable to Cypress	$ 75,742	$ (150,424)	$ (284,876)	$ 382,919	$ 13,070
Net income (loss) per share—basic:					
Continuing operations attributable to Cypress	$ 0.47	$ (1.03)	$ (2.12)	$ 2.36	$ (0.05)
Discontinued operations attributable to Cypress	—	—	0.23	0.10	0.14
Net income (loss) per share—basic	$ 0.47	$ (1.03)	$ (1.89)	$ 2.46	$ 0.09
Net income (loss) per share—diluted:					
Continuing operations attributable to Cypress	$ 0.40	$ (1.03)	$ (2.12)	$ 2.13	$ (0.05)
Discontinued operations attributable to Cypress	—	—	0.23	0.10	0.14
Net income (loss) per share—diluted	$ 0.40	$ (1.03)	$ (1.89)	$ 2.23	$ 0.09
Shares used in per-share calculation:					
Basic	161,114	145,611	150,447	155,559	140,809
Diluted	191,377	145,611	150,447	171,836	146,223

	As of				
	January 2, 2011	January 3, 2010	December 28, 2008	December 30, 2007 (1)(2)	December 31, 2006 (1)(2)
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 434,261	$ 299,642	$ 237,792	$ 1,035,738	$ 398,082
Working capital	$ 383,369	$ 279,643	$ 241,370	$ 618,012	$ 674,304
Total assets	$ 1,072,801	$ 912,508	$ 928,732	$ 3,744,352	$ 2,120,507
Debt	$ —	$ —	$ 27,023	$ 549,517	$ 557,072
Stockholders' equity	$ 702,893	$ 630,384	$ 638,427	$ 1,817,274	$ 1,084,998
Total assets of discontinued operations	$ —	$ —	$ —	$ 1,666,339	$ 573,927
Total liabilities of discontinued operations	$ —	$ —	$ —	$ 721,155	$ 85,181

(1) The year ended December 31, 2007 includes an adjustment that results in a decrease to our inventory balances of $5.5 million and an adjustment to accumulated deficit of the same amount. The year ended December 31, 2006 includes a $1.2 million increase to cost of revenues, a decrease in the amount of $2.5 million to inventories and an increase to accumulated deficit by the same amount. The year ended January 1, 2006 includes a $1.3 million increase to cost of revenues, a decrease in the amount of $1.3 million to inventories and an increase to accumulated deficit by the same amount. Refer to Note 2 of the Notes to the Consolidated Financial Statements.

(2) The year ended December 31, 2007 includes retrospective application of the new accounting guidance relating to debt to decrease total assets by $6.4 million and convertible notes by $50.5 million and increase stockholders' equity by $46.0 million. The year ended December 31, 2006 includes additional interest expense (including amortization of debt issuance costs) of $19.7 million, increase to interest income and other income (expense), net of $5.5 million, decrease to basic net income per share of $0.19, decrease to diluted net income per share of $0.17, increase to additional paid in capital of $80.8 million and an increase to accumulated deficit of $80.8 million. The year ended January 1, 2006 includes additional interest expense (including amortization of debt issuance costs) of $23.5 million, decrease to basic and diluted net income per share of $0.18, increase to additional paid in capital of $55.6 million and an increase to accumulated deficit of $55.6 million. Refer to Note 9 of the Notes to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, which are discussed under Item 1A.

EXECUTIVE SUMMARY

General

Cypress Semiconductor Corporation ("Cypress") delivers high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and exceptional system value. Our offerings include the flagship Programmable System-on-Chip ("PSoC®") families and derivatives such as PowerPSoC® solutions for high-voltage and LED lighting applications, CapSense® touch sensing and TrueTouch™ solutions for touchscreens. We are the world leader in universal serial bus ("USB") controllers, including the high-performance West Bridge® solution that enhances connectivity and performance in multimedia handsets. We are also a leader in high-performance memories and programmable timing devices. We serve numerous markets including consumer, mobile handsets, computation, data communications, automotive, industrial and military.

As of the end of fiscal 2010, our organization included the following business segments:

Business Segments	Description
Consumer and Computation Division	A product division focusing on PSoC, touch-sensing and touchscreen solutions, USB and timing solutions.
Data Communications Division	A product division focusing on data communication devices for wireless handset and professional video systems.
Memory and Imaging Division	A product division focusing on static random access memories, nonvolatile memories and image sensor products.
Emerging Technologies and Other	Includes Cypress Envirosystems and AgigA Tech, Inc., both majority-owned subsidiaries of Cypress, the Optical Navigation Systems ("ONS") business unit, China business unit, foundry-related services, other development stage companies and certain corporate expenses.

SunPower

In the third quarter of fiscal 2008, a committee of our Board of Directors (the "Board") approved the distribution of the SunPower Class B common stock held by us to our stockholders. On September 29, 2008, we completed the distribution of all of 42.0 million shares of SunPower Class B common stock to our stockholders (the "Spin-Off").

See Note 9 of Notes to Consolidated Financial Statements for a discussion of the adjustments approved by our Board to our stock plans as a result of the Spin-Off and Note 18 for a discussion of the amended tax sharing agreement between SunPower and us as a result of the Spin-Off.

Unless otherwise indicated, the Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K relate solely to the discussion of our continuing operations.

Manufacturing Strategy

Our core manufacturing strategy—"flexible manufacturing"—combines capacity from foundries with output from our internal manufacturing facilities. This initiative is intended to allow us to meet rapid swings in customer demand while lessening the burden of high fixed costs, a capability that is particularly important in high-volume consumer markets that we serve with our leading programmable product portfolio.

Consistent with this strategy, our Board approved a plan in December 2007 to exit our manufacturing facility in Texas and transfer production to our more cost-competitive facility in Minnesota and outside foundries. We substantially completed our exit plan by the end of fiscal 2008. We continued to hold the property for sale as of January 2, 2011.

RESULTS OF OPERATIONS

Revenues

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Consumer and Computation Division	$ 343,226	$ 274,861	$ 315,718
Data Communications Division	110,647	96,568	129,930
Memory and Imaging Division	405,844	288,246	312,410
Emerging Technologies and Other	17,815	8,111	7,658
Total revenues	$ 877,532	$ 667,786	$ 765,716

Consumer and Computation Division:

Revenues from the Consumer and Computation Division increased by $68.4 million in fiscal 2010, or approximately 24.9%, compared to fiscal 2009. The increase was primarily attributable to an increase of approximately $52 million in sales of our PSoC® product families mainly due to higher demand, continued gains in new design wins, expansion of our customer base and increased market penetration in our capacitive and touchscreen applications in consumer devices. The increase was also attributable to the economic recovery experienced in fiscal 2010 compared to the market downturn in fiscal 2009.

Revenues from the Consumer and Computation Division decreased by $40.9 million in fiscal 2009, or approximately 13%, compared to fiscal 2008. The decrease was primarily attributable to a decrease of approximately $27.4 million in sales of our USB products mainly due to the economic slowdown impacting demand in PC applications and consumer devices and increased competition in the consumer market. The decrease was also attributable to a decrease of $16.8 million in sales of our general purpose timing solutions resulting from reduced demand from certain large consumer and personal computer customers. The decrease was partly offset by an increase in our PSoC® product families.

Data Communications Division:

Revenues from the Data Communications Division increased by $14.1 million in fiscal 2010, or approximately 14.6%, compared to fiscal 2009. The increase was primarily attributable to an increase of approximately $22.7 million in sales of our communications products due to higher market demand, increased military shipments and the economic recovery experienced in fiscal 2010 compared to the market downturn in fiscal 2009. This increase was partially offset by a decrease of $10.4 million in sales of our West Bridge controllers and other products resulting from lowered demand and shipments to a major cell phone manufacturer.

Revenues from the Data Communications Division decreased by $33.4 million in fiscal 2009, or approximately 26%, compared to fiscal 2008. The decrease was primarily attributable to a decrease of $29.7

million in sales of our specialty memory products due to the continued slow down in demand in the base-station market and our programmable logic devices primarily due to the decline in military and certain end of life shipments.

Memory and Imaging Division:

Revenues from the Memory and Imaging Division increased by $117.6 million in fiscal 2010, or approximately 40.8%, compared to fiscal 2009. The revenue increase was primarily attributable to increases of approximately $97.4 million in sales of our SRAM products driven by increased market share, higher demand from wireless and wireline end customers and the economic recovery experienced in fiscal 2010 compared to the market downturn in fiscal 2009. This increase was reduced by a one time revenue offset of $6.3 million for the settlement of our SRAM anti-trust lawsuit.

Revenues from the Memory and Imaging Division decreased by $24.2 million in fiscal 2009, or approximately 8%, compared to fiscal 2008. The decrease was primarily attributable to the economic slowdown impacting us by reducing sales by $17.7 million of our SRAM products in networking, consumer and communications applications.

Emerging Technologies and Other:

Revenues from Emerging Technologies and Other increased by $9.7 million in fiscal 2010, or approximately 119.6%, compared to fiscal 2009. The revenue increase was primarily attributable to an overall increase in demand as certain of our Emerging Technologies divisions are beginning initial production ramps.

Revenues from Emerging Technologies and Other increased by $0.5 million in fiscal 2009, or approximately 6%, compared to fiscal 2008. The increased in revenues was primarily attributable to an increase in demand as these business are new and growing.

Cost of Revenues/Gross Margin

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Cost of revenues	$ 388,359	$ 397,204	$ 426,284
Gross margin percentage	55.7%	40.5%	44.3%

The increase in the gross margin in fiscal 2010 compared to fiscal 2009 was primarily due to favorable product mix, increased factory utilization and higher absorption of fixed costs, resulting from increased production and a 24.0% increase in sales. In addition, stock-based compensation expense allocated to cost of revenues decreased by $18.1 million mainly due to lower amortization of the remaining modification charge recorded in connection with the Spin-Off in fiscal 2008.

Cost of revenue decreased from $426.3 million in fiscal 2008 to $397.2 million in fiscal 2009 and gross margin percentage decreased from 44.3% in fiscal 2008 to 40.5% in fiscal 2009. The gross margin decrease is primarily attributable to higher stock compensation of $12.8 million in fiscal 2009 compared to fiscal 2008 due to SunPower Spin-Off in fiscal 2008. The increase in stock-based compensation was mainly related to certain performance based awards. Additionally, the gross margin percentage was also unfavorably impacted by inventory write-downs, under absorbed costs and reduced revenue in 2009 as a result of the challenging economic conditions as we proactively reduced wafer starts in early 2009 to match supply with demand.

Research and Development ("R&D")

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
R&D expenses	$ 176,816	$ 181,189	$ 193,522
As a percentage of revenues	20.1%	27.1%	25.3%

R&D expenditures decreased by $4.4 million in fiscal 2010 compared to fiscal 2009. The decrease was primarily attributable to a $15.1 million reduction in stock-based compensation expense mainly due to lower amortization of the remaining modification charge recorded in connection with the Spin-Off which occurred in fiscal 2008. This decrease was offset by an increase of $5.9 million in certain bonus programs which paid out at higher levels as profitability increased in fiscal 2010 and a $4.0 million increase in labor costs due to a combination of a mandatory three week shutdown and a temporary salary reduction in fiscal 2009.

R&D expenditures decreased by $12.3 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily attributable to a $9.4 million reduction in employee related labor and other costs associated with the implementation of our Fiscal 2008/9 Restructuring Plan. In addition the decrease was also due to lower stock-based compensation expense of $1.6 million.

Selling, General and Administrative ("SG&A")

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
SG&A expenses	$ 218,490	$ 219,602	$ 248,579
As a percentage of revenues	24.9%	32.9%	32.5%

SG&A expenses decreased by $1.1 million in fiscal 2010 compared to fiscal 2009. The decrease was primarily attributable to a $16.3 million reduction in stock-based compensation expense mainly due to lower amortization of the remaining modification charge recorded in connection with the Spin-Off which occurred in fiscal 2008 This decrease was offset by an increase of $5.3 million in sales commissions due to higher revenues, a $4.9 million charge taken to write down a building to fair value that was vacated in the fourth quarter of fiscal 2010, a $3.1 million increase in legal expense primarily related to the SRAM litigation and $2.9 million increase for certain bonus programs which paid out at higher levels in 2010 due to increased profitability.

SG&A expenses decreased by $29.0 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily attributable to a reduction of $22.0 million in outside services and advertising expense coupled with a decrease in other costs associated with the implementation of our Fiscal 2008/9 Restructuring Plan as well as other cost reduction efforts. This amount was partially offset by an $8.2 million increase in stock-based compensation expense related to certain performance based awards.

Amortization of Acquisition-Related Intangible Assets

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Amortization of acquisition-related intangible assets	$ 3,028	$ 3,804	$ 5,830
As a percentage of revenues	0.3%	0.6%	0.8%

Amortization expense decreased by $0.8 million in fiscal 2010 compared to fiscal 2009 and $2.0 million in fiscal 2009 compared to fiscal 2008. The decrease in amortization expense was primarily due to certain intangible assets that had been fully amortized in fiscal 2009.

Impairment of Goodwill

We performed our annual assessment of the carrying value of our goodwill balance during the fourth quarter of our fiscal year. Based on our annual assessment, no impairment was recorded in fiscal 2010 and fiscal 2009. Because of the significant negative industry and economic trends affecting our operations and expected future growth during fiscal 2008, as well as the general decline of industry valuations impacting our valuation, we determined that our goodwill was impaired in fiscal 2008 and recorded an impairment loss of $351.3 million.

The following table indicates the number of reporting units tested for goodwill and the amount of goodwill impairment recorded in each reportable segment during fiscal year 2008:

Reportable Segments	Number of Reporting Units	Goodwill Impairment
Consumer and Computation Division	Three	$ 97.9 million
Data Communications Division	Two	$ 138.4 million
Memory and Imaging Division	Two	$ 115.0 million

Restructuring

We recorded restructuring charges of $3.0 million, $15.2 million and $21.6 million during fiscal 2010, 2009 and 2008, respectively. The determination of when we accrue for severance costs, and which accounting standard applies, depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement.

The following table summarizes the restructuring charges recorded in the Consolidated Statements of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Fiscal 2010 Restructuring Plan	$ 2,243	$ —	$ —
Fiscal 2008/9 Restructuring Plan	995	15,028	11,783
Fiscal 2007 Restructuring Plan	(263)	214	9,860
Total restructuring charges	$ 2,975	$ 15,242	$ 21,643

Fiscal 2010 Restructuring Plan

During the third quarter of fiscal 2010, we implemented a restructuring plan to exit certain of our back-end manufacturing operations located in the Philippines ("Fiscal 2010 Restructuring Plan"). These actions were intended to reduce the cost of our back-end manufacturing by selling our labor intensive assembly production to a lower cost third-party subcontractor in China and by the continued shifting of production to our fully automated back-end processes.

To date, we recorded total restructuring charges of $2.2 million under the Fiscal 2010 Restructuring Plan, which was all related to personnel costs. As of January 2, 2011, our restructuring provision of $2.2 million was related to severance and benefits of our employees. We expect to eliminate approximately 300 manufacturing employees and 200 contractors or approximately 34% of our Philippines plant workforce by the end of fiscal 2011. Upon completion of all of our actions, we anticipate our annual savings impacting cost of goods sold after fiscal 2011 to be approximately $1.0 million, although there can be no assurance of this.

Fiscal 2008/9 Restructuring Plan:

In fiscal 2008, we initiated a restructuring plan as part of a companywide cost saving initiative, which continued into 2010, that was aimed to reduce operating costs in response to the economic downturn ("Fiscal

2008/9 Restructuring Plan"). To date, we recorded a total of $27.8 million under the Fiscal 2008/9 Restructuring Plan, of which $24.2 million was related to personnel costs and $3.6 million was related to other exit costs.

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Initial provision	$ 11,611
Non-cash	(162)
Cash payments	(4,075)
Balance as of December 28, 2008	7,374
Provision	11,516
Non-cash	(1,352)
Cash payments	(14,271)
Balance as of January 3, 2010	3,267
Provision	1,104
Non-cash	(698)
Cash payments	(2,567)
Balance as of January 2, 2011	$ 1,106

We eliminated approximately 835 positions. In the fourth quarter of 2010, we completed the majority of the remaining employee terminations. The following table summarizes certain information related to the positions:

Locations	Number of Employees
Manufacturing facility in the Philippines	250
Manufacturing facility in Minnesota	160
Corporate and other	425
Total	835

During fiscal 2010, our annual savings from our actions taken was approximately $70.0 million and proportionately impacted cost of goods sold by 50%, research and development expense by 25% and sales, general and administrative expense by 25%.

Fiscal 2007 Restructuring Plan:

During fiscal 2007, we implemented a restructuring plan to exit our manufacturing facility located in Round Rock, Texas ("Fiscal 2007 Restructuring Plan"). Under the Fiscal 2007 Restructuring Plan, we transitioned production from the Texas facility to our more cost-effective facility in Bloomington, Minnesota as well as outside third-party foundries. The Fiscal 2007 Restructuring Plan included the termination of employees and the planned disposal of assets, primarily consisting of land, building and manufacturing equipment, located in the Texas facility.

To date, we recorded total restructuring charges of $10.4 million related to the Fiscal 2007 Restructuring Plan. Of the total restructuring charges, $8.0 million was related to personnel costs and $2.4 million was related to property, plant and equipment and other exit costs. In the second quarter of fiscal 2010, we recorded a $2.4 million gain on the sale of certain equipment in our Texas facility.

We completed the termination of the remaining employees in the first quarter of fiscal 2009; all balances related to benefits were paid by the third quarter of fiscal 2009.

Assets Held for Sale:

The Texas facility ceased operations in the fourth quarter of fiscal 2008. As management has committed to a plan to sell the assets associated with the facility, we have classified the assets as held for sale and recorded the assets at the lower of their carrying amount or estimated fair value less cost to sell. Fair value was determined by an analysis of market prices for similar assets. In fiscal 2008, we recorded a write-down of $1.9 million related to the assets and $1.2 million of related disposal and other facility costs. In fiscal 2010, we recorded a $1.5 million write-down related to the assets.

The net book value of the remaining restructured assets that were classified as held for sale and included in "Other current assets" in the Consolidated Balance Sheet was $6.9 million and $7.7 million as of January 2, 2011 and January 3, 2010, respectively.

We had expected to complete the disposal of the restructured assets by the fourth quarter of fiscal 2009; however, due to the downturn and uncertainty in the commercial real estate market, we were unable to secure a buyer for the Texas facility. In response, we have revised the asking price for the property and expect to sell the facility within the next twelve months; however, there can be no assurance of this and our ability to complete the sale of any restructured assets may be impacted by the current economic condition.

Gain on Divestitures

We did not complete any divestitures during fiscal 2010 and fiscal 2009. We recorded a gain on divestitures totaling $10.0 million during fiscal 2008.

Fiscal 2008:

In fiscal 2008, we completed the sale of certain product lines of our subsidiary, Silicon Light Machines ("SLM"), to Dainippon Screen Manufacturing Co. Ltd. in Japan for $11.0 million in cash. SLM was a part of our "Emerging Technologies and Other" reportable segment. The divestiture included SLM's micro-electro-mechanical system solutions for commercial printing and other imaging applications. We retained SLM's laser optical navigation sensor product family. The following table summarizes the components of the gain recorded in fiscal 2008:

(In thousands)	
Cash proceeds	$ 11,000
Assets sold and liabilities assumed:	
Accounts receivable and inventories	(1,700)
Other	816
Transaction costs	(150)
Gain on divestiture	$ 9,966

Interest Income

Interest income increased by $0.4 million in fiscal 2010 compared to fiscal 2009. The increase was primarily driven by higher average cash and investment balances.

Interest income decreased by $19.8 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily driven by the impact of lower market interest rates.

Interest Expense

Interest expense decreased by $1.2 million in fiscal 2010 compared fiscal 2009. The decrease was primarily attributable to the 1.00% Notes which matured and were settled in September 2009.

Interest expense was $1.2 million in fiscal 2009 compared to $26.8 million in fiscal 2008. The decrease was primarily attributable to the conversion element of the outstanding 1.00% Notes which resulted in the recording

of $22.2 million non-cash interest expense in fiscal 2008 as a result of our retrospective application of the new guidance on convertible debt and lower outstanding debt balances in fiscal year 2009 due to the Note Tender Offer discussed below.

Note Tender Offer

In September 2008, we completed a tender offer to purchase for cash up to $531.3 million aggregate principal amount of the outstanding 1.00% Notes. In total $582.4 million aggregate principal of the 1.00% Notes were tendered. We accepted $531.3 million of the tendered 1.00% Notes at a purchase price of $1,321.22 per $1,000 principal amount, plus accrued and unpaid interest. Because more than $531.3 million principal amount was tendered, we purchased the 1.00% Notes on a pro rata basis. The pro-ration was based on the ratio of the principal amount of the 1.00% Notes tendered by a holder to the total principal amount of the 1.00% Notes tendered by all the holders. As a result of the Note Tender Offer, we paid $701.9 million in cash.

Gain on Sale of SunPower Common Stock

In fiscal 2008, we sold 2.5 million shares of SunPower Class A common stock (which were converted from Class B) in a private sale and received net proceeds of $222.5 million. The transaction resulted in a gain of $192.0 million in fiscal 2008.

Other Income (Expense), Net

The following table summarizes the components of other income (expense), net:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
Amortization of debt issuance costs	$ —	$ (114)	$ (3,051)
Write-off of debt issuance costs (see Note 15)	—	—	(4,800)
Gain on investments (see Note 7)	3,906	822	—
Gain on debt extinguishment	—	—	2,193
Impairment of investments (see Note 8)	—	(2,549)	(13,355)
Changes in fair value of investments under the deferred compensation plan (see Note 17)	2,653	5,150	(10,643)
Foreign currency exchange gain (loss), net	(2,452)	(22)	2,925
Other	565	487	(335)
Total other income (expense), net	$ 4,672	$ 3,774	$ (27,066)

Impairment of Investments:

The following table summarizes the impairment loss related to our investments:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per-share amounts)		
Debt securities:			
Commercial paper	$ —	$ 197	$ 253
Auction rate securities	—	1,393	3,860
Corporate bonds	—	140	562
Equity securities:			
Marketable equity securities	—	—	86
Non-marketable equity securities	—	819	8,594
Total impairment loss	$ —	$ 2,549	$ 13,355

Auction Rate Securities:

Auction rate securities are investments with contractual maturities generally between 20 and 30 years and are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations with interest rates resetting every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are backed by student loans originated under the Federal Family Education Loan Program (FFELP), which are guaranteed by the United States Federal Department of Education.

As of January 2, 2011, all of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, our auction rate securities totaling $23.7 million are classified as long-term investments as of January 2, 2011. If the financial market does not continue to improve, future downgrades could potentially impact the rating of our auction rate securities.

During fiscal 2010, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at January 2, 2011 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 1.57%—5.32%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 2, 2011, representing a decline in value of approximately $2.6 million.

As a result of our adoption of the amended other-than-temporary impairment guidance on debt securities in the second quarter of fiscal 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

Equity Securities:

We have equity investments in both public and privately held companies. We recognize an impairment charge when the carrying value of an investment exceeds its fair value and the decline in value is deemed other-than-temporary. We consider various factors in determining whether we should recognize an impairment charge on an investment in a public company, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the investee, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Our impairment assessment on investments in privately held companies includes the review of each investee's financial condition, the business outlook for its products and technology, its projected results and discounted cash flows, the likelihood of obtaining subsequent rounds of financing and the impact of any relevant contractual equity preferences held by us or others. If an investee obtains additional funding at a valuation lower than our carrying amount, we presume that the investment is impaired, unless specific facts and circumstances indicate otherwise. We recorded impairment charges of $0.8 million and $8.7 million in fiscal 2009 and 2008, respectively, as we determined that the decline in value of our equity investments in certain public and privately held companies was other-than-temporary. No impairment charge was recorded in fiscal 2010.

Employee Deferred Compensation Plan:

We have a deferred compensation plan, which provides certain key employees, including our executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-free basis. We do not make contributions to the deferred compensation plan and we do not guarantee returns on the investments. Participant deferrals and investment gains and losses remain our assets and are subject to claims of general creditors.

We account for the deferred compensation plan in accordance with the relevant accounting guidance, under which, the plan assets, which consist of trading securities, are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income.

All non-cash expense and income recorded under the deferred compensation plan were included in the following line items in the Consolidated Statements of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
Changes in fair value of assets recorded in:			
Other income (expense), net	$ 2,653	$ 5,150	$ (10,643)
Changes in fair value of liabilities recorded in:			
Cost of revenues	(370)	(516)	2,129
R&D expenses	(959)	(1,454)	3,560
SG&A expenses	(1,726)	(3,168)	5,437
Total income (expense), net	$ (402)	$ 12	$ 483

Income Taxes

Our income tax expense was $19.3 million, $5.9 million and $7.9 million in fiscal 2010, fiscal 2009 and fiscal 2008, respectively. The tax expense in fiscal 2010 and fiscal 2009 was primarily attributable to income taxes associated with our non-U.S. operations. The tax expense in fiscal 2008 was attributable to non-deductible goodwill impairment and debt extinguishment losses, utilization of foreign tax credits and the amortization of deferred tax liabilities associated with purchased intangible assets, partially offset by non-U.S. taxes on income earned in certain countries that was not offset by current year net operating losses in other countries and U.S. federal alternative minimum tax and state taxes.

Our effective tax rate varies from the U.S. statutory rate primarily due to earnings of foreign subsidiaries taxed at different rates and a full valuation allowance on net operating losses incurred in the U.S. The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We regularly assess our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the many countries in which we and our affiliates do business.

The IRS is currently conducting audits of our federal income tax returns for fiscal 2008, 2007 and 2006. As of January 2, 2011, no material adjustments to the tax liabilities have been proposed by the IRS. However, the IRS has not completed their examination and there can be no assurance that there will be no material adjustments upon completion of their review. In addition, non-U.S. tax authorities have completed their examination of our subsidiary in India for fiscal years 2007, 2006 and 2005. As of January 2, 2011, the proposed adjustments have been appealed. We believe the ultimate outcome of this appeal will not result in a material adjustment to the tax liability. While years prior to 2006 for the U.S. corporate tax return are not open for assessment, the IRS can adjust net operating loss and research and development credit carryovers that were generated in prior years and carried forward to 2006 and subsequent years.

Discontinued Operations Attributable to Cypress:

Our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. The assets, liabilities and noncontrolling interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheets.

The following table summarizes the results of operations related to the discontinued operations through the date of the Spin-off:

	As of December 28, 2008
	(In thousands)
Revenues	$ 1,033,952
Costs and expenses, net	967,716
Income (loss) from discontinued operations before income taxes	66,236
Income tax benefit (provision)	(31,850)
Income from discontinued operations attributable to Cypress, net of income taxes	$ 34,386

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our consolidated cash and investments and working capital :

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Cash, cash equivalents and short-term investments	$ 434,261	$ 299,642
Working capital	$ 383,369	$ 279,643

Key Components of Cash Flows

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Net cash provided by operating activities of continuing operations	$ 262,746	$ 89,303	$ 110,717
Net cash provided by (used in) investing activities of continuing operations	$ (150,734)	$ (43,126)	$ 337,376
Net cash provided by (used in) financing activities of continuing operations	$ (92,387)	$ (7,368)	$ (1,051,787)

Fiscal 2010:

Net cash provided by operating activities increased by $173.4 million in fiscal 2010 compared to fiscal 2009. Operating cash flows in fiscal 2010 were primarily driven by net income of $74.9 million from continuing operations adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, restructuring charges and changes in operating assets and liabilities. The changes in our working capital as of January 2, 2011 compared to January 2, 2010 were as follows:

- Accounts receivable increased by $30.8 million due to higher distributor shipments.
- Deferred revenues less cost of revenues increased by $55.9 million due to higher distributor shipments.
- Inventories increased by $10.6 million to support higher levels of sales in 2010 and a profile build out of certain products.

Net cash used in investing activities increased by $107.6 million in fiscal 2010 compared to fiscal 2009. During fiscal 2010, our investing activities primarily included the $50.8 million of property and equipment expenditures offset by the purchase of investments of $103.1 million, net of proceeds from sales or maturities.

Net cash used in financing activities increased by $85.0 million in fiscal 2010 compared to fiscal 2009. During fiscal 2010, our financing activities primarily included a net of $149.2 million used on the yield enhancement structured agreements, $25.9 million used to repurchase our common shares and partially offset by net proceeds of $82.8 million from the issuance of common shares under our employee stock plans.

Fiscal 2009:

Net cash provided by operating activities decreased $21.4 million in fiscal 2009 compared to fiscal 2008. Operating cash flows in fiscal 2009 were primarily driven by a net loss of $150.4 million from continuing operations adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, loss on property and equipment, impairment losses, restructuring charges and changes in operating assets and liabilities. The decrease in inventories was primarily attributable to increased demand as well as a decrease in stock-based compensation capitalized into inventory.

Net cash provided by investing activities decreased $380.5 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily due to proceeds of $222.5 million from sale of SunPower stock during fiscal 2008. During fiscal 2009, our investing activities primarily included: (1) purchase of investments of $46.8 million, net of sales or maturities of our investments of $24.4 million, and (2) proceeds of $5.7 million from the sale of property. This cash inflow was offset by $25.8 million of property and equipment expenditures.

Net cash used in financing activities decreased $1.0 billion in fiscal 2009 compared to fiscal 2008. The decrease was primarily due to the redemption of our convertible debt for $743.0 million and repurchase of our common stock of $375.6 million during fiscal 2008. During fiscal 2009, our financing activities primarily included: (1) redemption of our 1.00% Notes which used $51.6 million, and (2) $46.3 million used to repurchase our common shares. These cash outflows were partially offset by: (1) proceeds of $101.6 million from the issuance of common shares under our employee stock plans, and (2) proceeds of $3.3 million from the termination of a portion of the convertible note hedge and warrants related to our 1.00% Notes.

Fiscal 2008:

Net cash provided by operating activities decreased $18.4 million in fiscal 2008 compared to fiscal 2007. Operating cash flows in fiscal 2008 were primarily driven by a net loss of $319.3 million from continuing operations which is primarily due to a $351.3 million impairment of goodwill. The net loss is also adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense and associated excess tax benefits, interest and expenses on adoption of ASC 470, a gain on sale of SunPower common stock, impairment losses, gain on divestitures, restructuring charges and changes in operating assets and liabilities. The decrease in accounts receivable was primarily driven by lower sales. The increase in inventories was primarily attributable to a last-time build program on certain products manufactured in our Texas facility, as well as an increase in stock-based compensation capitalized into inventory.

Net cash provided by investing activities decreased $65.6 million in fiscal 2008 compared to fiscal 2007. During fiscal 2008, our investing activities primarily included: (1) our sale of SunPower common stock, which generated net proceeds of $222.5 million, (2) proceeds of $185.8 million from sales or maturities of our investments, net of purchases, and (3) proceeds of $11.0 million from a divestiture. These cash inflows were partially offset by: (1) $42.1 million of property and equipment expenditures, and (2) $41.6 million used in acquisitions of businesses, net of cash acquired.

Net cash used in financing activities increased $1.1 billion in fiscal 2008 compared to fiscal 2007. During fiscal 2008, our financing activities primarily included: (1) redemption of our 1.00% Notes which used $742.6 million and (2) $375.6 million used to repurchase our common shares. These cash outflows were partially offset

by: (1) proceeds of $55.6 million from the issuance of common shares under our employee stock plans, and (2) proceeds of $7.8 million from the termination of a portion of the convertible note hedge and warrants related to our 1.00% Notes.

Liquidity

Convertible Debt:

In September 2008, we completed a tender offer to purchase for cash up to $531.3 million aggregate principal amount of the 1.00% Notes. As a result of the tender offer, we paid $701.9 million in cash in the third quarter of fiscal 2008 at a purchase price of $1,321.22 per $1,000 principal amount, plus accrued and unpaid interest.

In November 2008, we made open market purchases of approximately $12.1 million of the outstanding 1.00% Notes at a slight discount to par, plus accrued interest.

Pursuant to the applicable Indenture, the Spin-Off of SunPower constituted both a fundamental change and a make-whole fundamental change to the 1.00% Notes. Consequently, the remaining holders were permitted to require us to purchase their 1.00% Notes on December 17, 2008, in cash at a price equal to $1,000 principal amount of the Notes, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. On December 17, 2008, we repurchased the principal amount of $28.7 million of the 1.00% Notes.

On September 15, 2009, our outstanding 1.00% Notes of approximately $28.0 million in principal matured and were settled. Holders received cash for the principal amount of the 1.00% Notes and the entire premium. The final conversion price per 1.00% Notes as calculated under the Indenture was $1,841.76 including principal and premium. Consistent with the terms of the Indenture, on September 15, 2009, we paid approximately $51.6 million for the principal amount of 1.00% Notes, premium and accrued and unpaid interest.

Auction Rate Securities:

As of January 2, 2011, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. Currently, these failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. We have classified our auction rate securities totaling $23.7 million as long-term investments as of January 2, 2011.

During fiscal 2010, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. Based on the discounted cash flows, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 2, 2011.

Stock Repurchase Program:

On October 21, 2010, our Board authorized a $600.0 million stock buyback program. The program allows us to purchase our common stock or enter into equity derivative transactions related to our common stock. The timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of our common stock, regulatory, legal, and contractual requirements, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at our discretion.

During the fourth quarter of fiscal 2010, we used $25.9 million in cash to repurchase a total of approximately 1.5 million shares at an average share price of $17.15. As of January 2, 2011, the remaining balance available for future purchases was $574.1 million under the stock repurchase program.

In January 2011, we used $25.9 million in cash to repurchase a total of approximately 1.4 million shares at an average price of $18.55. In February 2011, we used $11.8 million in cash to repurchase 0.6 million shares at an average price of $20.87.

Yield Enhancement Program:

In December 2010, we entered into a short-term yield enhanced structured agreement with a maturity of less than 45 days at an aggregate price of approximately $44.0 million. The agreement remained unsettled at January 2, 2011. On January 19, 2011, we settled this agreement and received approximately $47.0 million in cash.

On February 9, 2011 we entered into a short-term yield enhanced structured agreement with a maturity of less than 45 days at an aggregate price of approximately $52.5 million.

Contractual Obligations

The following table summarizes our contractual obligations as of January 2, 2011:

	Payments Due by Years				
	Total	2011	2012 and 2013	2014 and 2015	After 2015
			(In thousands)		
Operating lease commitments	$ 24,499	$ 8,094	$ 11,193	$ 4,583	$ 629
Purchase obligations (1)	91,276	90,229	1,047	—	—
Total contractual obligations	$ 115,725	$ 98,328	$ 12,240	$ 4,583	$ 629

(1) Purchase obligations primarily include non-cancelable purchase orders for materials, services, manufacturing equipment, building improvements and supplies in the ordinary course of business. Purchase obligations are defined as enforceable agreements that are legally binding on us and that specify all significant terms, including quantity, price and timing.

As of January 2, 2011, our unrecognized tax benefits were $46.8 million, which were classified as long-term liabilities. We believe it is possible that we may recognize approximately $21 to $23 million of our existing unrecognized tax benefits within the next twelve months as a result of the lapse of statutes of limitations and the resolution of agreements with domestic and various foreign tax authorities.

Capital Resources and Financial Condition

Our long-term strategy is to maintain a minimum amount of cash for operational purposes and to invest the remaining amount of our cash in interest-bearing and highly liquid cash equivalents and debt securities and the purchase of our stock through our stock buyback program. As of January 2, 2011, in addition to $263.2 million in cash and cash equivalents, we had $171.1 million invested in short-term investments for a total cash and short-term investment position of $434.3 million that is available for use in current operations. In addition, we had $23.7 million of long-term investments primarily consisting of auction rate securities.

As of January 2, 2011, approximately 27% our cash and cash equivalents are offshore funds. While these amounts are primarily invested in U.S. dollars, a portion is held in foreign currencies. All offshore balances are exposed to local political, banking, currency control and other risks. In addition, these amounts, if repatriated may be subject to tax and other transfer restrictions.

We believe that liquidity provided by existing cash, cash equivalents and investments and our borrowing arrangements will provide sufficient capital to meet our requirements for at least the next twelve months. However, should prevailing economic conditions and/or financial, business and other factors beyond our control adversely affect our estimates of our future cash requirements, we could be required to fund our cash requirements by alternative financing. There can be no assurance that additional financing, if needed, would be available on terms acceptable to us or at all. We may choose at any time to raise additional capital or debt to strengthen our financial position, facilitate growth, enter into strategic initiatives including the acquisition of other companies and provide us with additional flexibility to take advantage of other business opportunities that arise.

Off-Balance Sheet Arrangement

During fiscal 2005, we entered into a strategic foundry partnership with Grace Semiconductor Manufacturing Corporation (“Grace”), pursuant to which we have transferred certain of our proprietary process technologies to Grace’s Shanghai, China facility. In accordance with a foundry agreement executed in fiscal 2006, we purchase wafers from Grace that are produced using these process technologies.

Pursuant to a master lease agreement, Grace has leased certain semiconductor manufacturing equipment from a financing company. In conjunction with the master lease agreement, we have entered into a series of guarantees with the financing company for the benefit of Grace. As of January 2, 2011, we updated our assessment of the likelihood that we would have to settle the outstanding lease payments under the guarantees and we determined that it was not probable. As a result, we have not recorded any liability relating to outstanding lease payments under the guarantees.

Pursuant to the guarantees, we issued irrevocable letters of credit to secure the rental payments under the guarantees in the event a demand is made by the financing company on us. The amount available under the letters of credit will decline according to schedules mutually agreed upon by us and the financing company. If we default, the financing company will be entitled to draw on the letters of credit. In connection with the guarantees, we were granted options to purchase 40.3 million ordinary shares of Grace. As of January 2, 2011, we determined that the fair value of the guarantees and the options was not material to our consolidated financial statements.

As of January 2, 2011, under the guarantees, Grace had no outstanding rental payments and the outstanding irrevocable letters of credit totaled $2.6 million. During the fourth quarter of fiscal 2010, we advanced $2.5 million in pre-payments to Grace to secure a certain supply of wafers. In February 2011, we advanced an additional $1.0 million in pre-payments.

Non-GAAP Financial Measures

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles (“Non-GAAP”) financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. To supplement our consolidated financial results presented in accordance with GAAP, we use Non-GAAP financial measures which are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described below. Management believes that these Non-GAAP financial measures reflect an additional and useful way of viewing aspects of our operations that, when viewed in conjunction with our GAAP results, provide a more comprehensive understanding of the various factors and trends affecting our business and operations. Non-GAAP financial measures used by us include gross margin, research and development expenses, selling, general and administrative expenses, operating income or loss, net income or loss and basic and diluted net income or loss per share.

Our Non-GAAP measures primarily exclude stock-based compensation, acquisition-related charges, impairments to goodwill, gain or losses on divestiture, investment-related gains and losses, discontinued operations, restructuring costs and other special charges and credits. Management believes these Non-GAAP financial measures provide meaningful supplemental information regarding our strategic and business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these non-GAAP financial measures facilitate management’s internal comparisons to our historical operating results and comparisons to competitors’ operating results.

We use each of these non-GAAP financial measures for internal managerial purposes, when providing our financial results and business outlook to the public, to facilitate period-to-period comparisons and are used to formulate our formula driven cash bonus plan and any milestone based stock awards. Management believes that these non-GAAP measures provide meaningful supplemental information regarding our operational and financial performance of current and historical results. Management uses these non-GAAP measures for strategic and

business decision making, internal budgeting, forecasting and resource allocation processes. In addition, these non-GAAP financial measures facilitate management's internal comparisons to our historical operating results and comparisons to competitors' operating results.

The table below shows our Non-GAAP financial measures:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per shares amounts)		
Non-GAAP gross margin	$ 518,352	$ 314,558	$ 373,075
Non-GAAP research and development expenses	155,059	145,879	153,416
Non-GAAP selling, general and administrative expenses	164,958	156,027	191,953
Non-GAAP operating income attributable to Cypress	198,334	12,649	27,706
Non-GAAP net income attributable to Cypress	186,159	17,743	32,647
Non-GAAP diluted net income per share attributable to Cypress	0.94	0.10	0.20

We believe that providing these Non-GAAP financial measures, in addition to the GAAP financial results, are useful to investors because they allow investors to see our results "through the eyes" of management as these Non-GAAP financial measures reflect our internal measurement processes. Management believes that these Non-GAAP financial measures enable investors to better assess changes in each key element of our operating results across different reporting periods on a consistent basis and provides investors with another method for assessing our operating results in a manner that is focused on the performance of our ongoing operations.

The following is a reconciliation of Non-GAAP measures to GAAP measures:

CYPRESS SEMICONDUCTOR CORPORATION
RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES
(In thousands, except per-share data)
(Unaudited)

	Twelve Months Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
GAAP gross margin (a)	$ 489,173	$ 270,582	$ 339,432
Stock-based compensation expense	22,716	40,798	27,950
SRAM legal settlement	6,250	—	—
Impairment of assets	213	—	1,734
Write down of final build inventory	—	—	2,475
Other acquisition-related expense	—	559	1,616
Changes in value of deferred compensation plan	—	5	(132)
License royalty	—	2,614	—
Non-GAAP gross margin	$ 518,352	$ 314,558	$ 373,075
GAAP research and development expenses	$ 176,816	$ 181,189	$ 193,522
Stock-based compensation expense	(21,541)	(37,537)	(39,089)
Other acquisition-related expense	(2)	(75)	(1,601)
Gain on sale of long-term asset	—	2,437	—
Changes in value of deferred compensation plan	(214)	(135)	584
Non-GAAP research and development expenses	$ 155,059	$ 145,879	$ 153,416
GAAP selling, general and administrative expenses	$ 218,490	$ 219,602	$ 248,579
Stock-based compensation expense	(47,202)	(63,477)	(55,306)
Impairment of assets	(5,293)	—	—
SRAM legal settlement	(1,000)	—	—
Other acquisition-related expense	—	(52)	(1,665)
Changes in value of deferred compensation plan	(37)	(46)	147
Release of allowance for uncollectible employee loans	—	—	198
Non-GAAP selling, general and administrative expenses	$ 164,958	$ 156,027	$ 191,953
GAAP operating income (loss)	$ 87,864	$ (149,255)	$ (471,433)
Stock-based compensation expense	91,459	141,812	122,345
SRAM legal settlement	7,250	—	—
License royalty	—	2,614	—
Acquisition-related expense:			
Impairment of goodwill	—	—	351,257
Amortization of acquisition-related intangibles	3,028	3,804	5,830
Other acquisition-related expense	—	686	4,882
Gain on sale of long-term asset	—	(2,440)	—
Write down of final build inventory	—	—	2,475
Changes in value of deferred compensation plan	252	186	(863)
Release of allowance for uncollectible employee loans	—	—	(198)
Impairment of assets	5,506	—	1,734
Gains on divestitures	—	—	(9,966)
Restructuring charges	2,975	15,242	21,643
Non-GAAP operating income	$ 198,334	$ 12,649	$ 27,706

CYPRESS SEMICONDUCTOR CORPORATION
RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES-(Continued)
(In thousands, except per-share data)
(Unaudited)

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
GAAP net income (loss) attributable to Cypress	$ 75,742	$ (150,424)	$ (284,876)
Stock-based compensation expense	91,459	141,812	122,345
SRAM legal settlement	7,250	—	—
License royalty	—	2,614	—
Acquisition-related expense:			
Impairment of goodwill	—	—	351,257
Amortization of acquisition-related intangibles	3,028	3,804	5,830
Other acquisition-related expense	—	686	4,882
Gain on sale of long-term asset	—	(2,440)	—
Write down of final build inventory	—	—	2,475
Changes in value of deferred compensation plan	252	186	(863)
Release of allowance for uncollectible employee loans	—	—	(198)
Impairment of assets	5,506	—	1,734
Gains on divestitures	—	—	(9,966)
Restructuring charges	2,975	15,242	21,643
Investment-related gains/losses	(3,158)	3,257	38,536
Gain on sale of Sunpower shares	—	—	(192,048)
Tax effects	3,105	3,006	6,282
Income from discontinued operations attributable to Cypress	—	—	(34,386)
Non-GAAP net income attributable to Cypress	$ 186,159	$ 17,743	$ 32,647
GAAP net income (loss) per share attributable to Cypress—diluted	$ 0.40	$ (1.03)	$ (1.89)
Stock-based compensation expense	0.45	0.97	0.74
SRAM legal settlement	0.04	—	—
License royalty	—	0.02	—
Acquisition-related expense:			
Impairment of goodwill	—	—	2.11
Amortization of acquisition-related intangibles	0.01	0.03	0.04
Other acquisition-related expense	—	—	0.03
Gain on sale of long-term asset	—	(0.02)	—
Write down of final build inventory	—	—	0.01
Changes in value of deferred compensation plan	—	—	(0.01)
Impairment of assets	0.03	—	0.01
Gains on divestitures	—	—	(0.06)
Restructuring charges	0.01	0.10	0.13
Investment-related gains/losses	(0.02)	0.02	0.23
Gain on sale of Sunpower shares	—	—	(1.16)
Tax effects	0.02	0.02	0.04
Non-GAAP share count adjustment	—	(0.01)	0.18
Income from discontinued operations attributable to Cypress	—	—	(0.20)
Non-GAAP net income per share attributable to Cypress—diluted	$ 0.94	$ 0.10	$ 0.20

(a) During the third quarter of 2009, we identified historically immaterial errors related to the value of our raw material inventory balances located in the Philippines. We have determined that these errors were not material to any of the individual prior periods presented and accordingly, the financial statements for the twelve months ended December 28, 2008 have been recast to correct for the immaterial errors.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board ("FASB") issued new standards which amend the consolidation rules related to variable interest entities. The new standards eliminate a mandatory quantitative approach to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis and require an ongoing reassessment of whether an entity is the primary beneficiary. We adopted this standard in the first quarter of fiscal 2010. The adoption did not impact our consolidated financial statements.

In October 2009, the FASB issued new standards for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, these new standards modify the manner in which the arrangement consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards are required to be adopted in the first quarter of 2011. We do not expect these new standards to significantly impact our consolidated financial statements.

In October 2009, the FASB issued new standards for the accounting for certain revenue arrangements that include software. These new standards amend the scope of pre-existing software revenue guidance by removing from the guidance tangible products and certain software. These new standards are required to be adopted in the first quarter of 2011. We do not expect these new standards to significantly impact our consolidated financial statements.

In January 2010, the FASB issued updated standards related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). These updated standards also require that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. Theses updated standards are effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Except for the Level 3 activity disclosure, these updated standards were adopted in the first quarter of fiscal 2010. The adoption did not impact our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included in this Annual Report on Form 10-K and the data used to prepare them. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and we are required to make estimates, judgments and assumptions in the course of such preparation. Note 1 of Notes to Consolidated Financial Statements under Item 8 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an ongoing basis, we re-evaluate our judgments and estimates including those related to revenue recognition, allowances for doubtful accounts receivable, inventory valuation, valuation of long-lived assets, goodwill and

financial instruments, stock-based compensation, litigation and settlement costs, and income taxes. We base our estimates and judgments on historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies that are affected by significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements are as follows:

Revenue Recognition:

We generate revenues by selling products to distributors, various types of manufacturers including original equipment manufacturers ("OEMs") and electronic manufacturing service providers ("EMSs"). We recognize revenue on sales to OEMs and EMSs provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations.

Sales to certain distributors are made under agreements which provide the distributors with price protection, other allowances and stock rotation under certain circumstances. Given the uncertainties associated with the rights given to these distributors, revenues and costs related to distributor sales are deferred until products are sold by the distributors to the end customers. Revenues are recognized from those distributors when the products have been sold to the end customers. Reported information includes product resale price, quantity and end customer shipment information as well as remaining inventory on hand. At the time of shipment to those distributors, we record a trade receivable for the selling price since there is a legally enforceable right to receive payment, relieve inventory for the value of goods shipped since legal title has passed to the distributors, and defer the related margin as deferred revenue less cost of revenue on sales to distributors in the Consolidated Balance Sheets. The effects of distributor price adjustments are recorded as a reduction to deferred revenue at the time the distributors sell the products to the end customers.

We record as a reduction to revenues reserves for sales returns, price protection and allowances, based upon historical experience rates and for any specific known customer amounts. We also provide certain distributors and EMSs with volume-pricing discounts, such as rebates and incentives, which are recorded as a reduction to revenues at the time of sale. Historically these volume discounts have not been significant.

Our revenue reporting is highly dependent on receiving pertinent, accurate and timely data from our distributors. Distributors provide us periodic data regarding the product, price, quantity, and end customer when products are resold as well as the quantities of our products they still have in stock. Because the data set is large and complex and because there may be errors in the reported data, we must use estimates and apply judgments to reconcile distributors' reported inventories to their activities. Actual results could vary materially from those estimates.

Allowances for Doubtful Accounts Receivable:

We maintain an allowance for doubtful accounts for losses that we estimate will arise from our customers' inability to make required payments. We make estimates of the collectibility of our accounts receivable by considering factors such as historical bad debt experience, specific customer creditworthiness, the age of the accounts receivable balances and current economic trends that may affect a customer's ability to pay. If the data we use to calculate the allowance for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and our results of operations could be materially affected.

Valuation of Inventories:

Management periodically reviews the adequacy of our inventory reserves. We record a write-down for our inventories which have become obsolete or are in excess of anticipated demand or net realizable value. We perform a detailed review of inventories each quarter that considers multiple factors including demand forecasts, product life cycle status, product development plans and current sales levels. As of January 2, 2011, we had total

raw materials of $7.4 million, work-in-process of $72.1 million and finished goods of $22.3 million. Inventory reserves are not relieved until the related inventory has been sold or scrapped. Our inventories may be subject to rapid technological obsolescence and are sold in a highly competitive industry. If there were a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to record additional write-downs, and our gross margin could be adversely affected.

Valuation of Long-Lived Assets:

Our business requires heavy investment in manufacturing facilities and equipment that are technologically advanced but can quickly become significantly under-utilized or rendered obsolete by rapid changes in demand. In addition, we have recorded intangible assets with finite lives related to our acquisitions.

We evaluate our long-lived assets, including property, plant and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for our business, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. Impairments are recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analysis. If there is a significant adverse change in our business in the future, we may be required to record impairment charges on our long-lived assets. During the fourth quarter of fiscal 2010, we performed an impairment analysis for our long-lived assets and determined that there was no impairment.

Valuation of Goodwill:

We tested our goodwill on the reporting unit level. We have one reporting unit in our Consumer and Computation Division that has goodwill.

Management determines the fair value of our reporting unit using a combination of the income approach, which is based on a discounted cash flow analysis of the reporting unit, and the market approach, which is based on a competitor multiple assessment, if available. For our reporting unit, we weight the income approach 75% and the market approach 25%. The assumptions supporting the estimated future cash flows, including the discount rates, estimated terminal values and five-year annual growth rates, reflect management's best estimates. The discount rates were based upon our weighted average cost of capital as adjusted for the risks associated with our operations.

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for our reporting unit. We performed our annual assessment of the carrying value of our goodwill balance during the fourth quarter of fiscal 2010. Our annual assessment did not result in an impairment charge as there was a substantial difference between the estimated fair value and the carrying value of the assets of the reporting unit.

In fiscal 2008, as a result of the significant negative industry and economic trends affecting our operations and expected future growth as well as the general decline of industry valuations impacting our assessment, we determined that a portion of our goodwill was other-than-temporarily impaired and recorded an impairment loss of $351.3 million.

If our assumptions regarding forecasted revenue or growth rates on our remaining reporting unit are not achieved, we may be required to record additional goodwill impairment charges in future periods.

Fair Value of Financial Instruments:

We adopted the provisions of the accounting guidance, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Our financial assets and financial liabilities that require recognition under the guidance include available-for-sale investments, employee deferred compensation plan and foreign currency derivatives. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. As such, fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Financial assets utilizing Level 1 inputs include U.S. treasuries, most money market funds, marketable equity securities and our employee deferred compensation plan;

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Financial assets and liabilities utilizing Level 2 inputs include foreign currency forward exchange contracts, most commercial paper and corporate notes and bonds; and

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Financial assets utilizing Level 3 inputs primarily include auction rate securities. We use an income approach valuation model to estimate the exit price of the auction rate securities, which is derived as the weighted-average present value of expected cash flows over various periods of illiquidity, using a risk adjusted discount rate that is based on the credit risk and liquidity risk of the securities.

Availability of observable inputs can vary from instrument to instrument and to the extent that valuation is based on inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by our management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In regards to our auction rate securities, the income approach valuation model was based on both Level 2 (credit quality and interest rates) and Level 3 inputs. We determined that the Level 3 inputs were the most significant to the overall fair value measurement, particularly the estimates of risk adjusted discount rates and ranges of expected periods of illiquidity.

Stock-Based Compensation:

Under the fair value recognition provisions of the guidance, we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest over the requisite service period of the awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. The assumptions used in calculating the fair value of

share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, our future stock-based compensation expense could be significantly different from what we have recorded.

Accounting for Income Taxes:

Our global operations involve manufacturing, research and development and selling activities. Profits from non-U.S. activities are subject to local country taxes but are not subject to U.S. tax until repatriated to the U.S. It is our intention to permanently reinvest these earnings outside the U.S. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Should we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, we would record an adjustment to the deferred tax asset valuation allowance. This adjustment would increase income in the period such determination is made.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate tax assessment, a further charge to expense would result.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

Our investment portfolio consists of a variety of financial instruments that exposes us to interest rate risk, including, but not limited to, money market funds, commercial paper and corporate securities. These investments are generally classified as available-for-sale and, consequently, are recorded on our balance sheets at fair market value with their related unrealized gain or loss reflected as a component of accumulated other comprehensive income in stockholders' equity. Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio. Since we believe we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

Auction Rate Securities

As of January 2, 2011, all our auction rate securities are classified as Level 3 financial instruments. Auction rate securities are investments with contractual maturities generally between 20 and 30 years. The auction rate securities held by us are backed by student loans originated under the Federal Family Education Loan Program (FFELP), which are guaranteed by the U.S. Federal Department of Education.

As of January 2, 2011, all of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack

of liquidity, we have classified our auction rate securities totaling $23.7 million as long-term investments as of January 2, 2011. If the financial market continues to deteriorate, future downgrades could potentially impact the rating of our auction rate securities.

During fiscal 2010, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at January 2, 2011 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 1.57%—5.32%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 2, 2011, representing a decline in value of approximately $2.6 million.

As a result of our adoption of the amended other-than-temporary impairment guidance on debt securities in the second quarter of fiscal 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

The following table summarizes certain information related to our auction rate securities as of January 2, 2011:

	Fair Value	Fair Value Given a 100 Basis Point Increase in Interest Rates	Fair Value Given a 100 Basis Point Decrease in Interest Rates
		(In thousands)	
Auction rate securities	$ 23,708	$ 26,079	$ 21,337

Investments in Publicly Traded and Privately Held Companies

We have equity investments in certain publicly traded companies. The marketable equity securities are classified as available-for-sale investments and are recorded at fair value with unrealized gain (loss) reported as a component in "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. The fair value of the common stock is subject to market price volatility. The following table summarizes certain information related to these investments as of January 2, 2011:

Investments	Fair Value	Fair Value Given a 10% Increase in Stock Prices	Fair Value Given a 10% Decrease in Stock Prices
		(In thousands)	
Marketable equity securities	$ 804	$ 884	$ 724

We also have equity investments in several privately held companies, many of which are start-ups or in development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. As our equity investments generally do not permit us to exert significant influence or control, these amounts generally represent our cost of the investments, less any adjustments we make when we determine that an investment's net realizable value is less than its carrying cost. We recorded impairment charges of $0.8 million and $8.7 million in fiscal 2009 and 2008, respectively, as we determined that the decline in value of our equity investments in certain public and privately held companies was other-than-temporary. No impairment charge was recorded in fiscal 2010. As of January 2, 2011, the carrying value of our investments in privately held companies was $2.0 million.

Foreign Currency Exchange Risk

We operate and sell products in various global markets and purchase capital equipment using foreign currencies but predominantly the U.S. dollar. As a result, we are exposed to risks associated with changes in foreign currency exchange rates. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, when foreign currencies appreciate against the U.S. dollar, inventory and expenses denominated in foreign currencies become more expensive. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for international customers, thus potentially leading to a reduction in demand, and therefore in our sales and profitability. Furthermore, many of our competitors are foreign companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with those companies. We cannot predict the impact of future exchange rate fluctuations on our business and results of operations.

We analyzed our foreign currency exposure, including our hedging strategies, to identify assets and liabilities denominated in other currencies. For those assets and liabilities, we evaluated the effects of a 10% shift in exchange rates between those currencies and the U.S. dollar. We have determined that there would be an immaterial effect on our results of operations from such a shift.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Consolidated Balance Sheets	61
Consolidated Statements of Operations	62
Consolidated Statements of Stockholders’ Equity	63
Consolidated Statements of Cash Flows	65
Notes to Consolidated Financial Statements	67
Report of Independent Registered Public Accounting Firm	107
Schedule II – Valuation and Qualifying Accounts	117

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 2, 2011	January 3, 2010
	(In thousands, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 263,183	$ 243,558
Short-term investments	171,078	56,084
Total cash, cash equivalents and short-term investments	434,261	299,642
Accounts receivable, net	117,726	86,959
Inventories	101,763	91,198
Other current assets	41,908	40,906
Total current assets	695,658	518,705
Property, plant and equipment, net	260,122	272,620
Goodwill	31,836	31,836
Intangible assets, net	12,499	15,132
Other long-term assets	72,686	74,215
Total assets	$ 1,072,801	$ 912,508
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 59,817	$ 61,712
Accrued compensation and employee benefits	43,292	37,756
Deferred revenues less cost of revenues	131,757	75,881
Income taxes payable	11,631	7,090
Other current liabilities	65,792	56,623
Total current liabilities	312,289	239,062
Deferred income taxes and other tax liabilities	53,830	39,272
Other long-term liabilities	3,789	3,790
Total liabilities	369,908	282,124
Commitments and contingencies (Note 19)		
Equity:		
Preferred stock, $.01 par value, 5,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 650,000 and 650,000 shares authorized; 259,394 and 235,409 shares issued; 170,753 and 159,382 shares outstanding at January 2, 2011 and January 3, 2010, respectively	2,594	2,354
Additional paid-in-capital	2,401,996	2,247,716
Accumulated other comprehensive income (loss)	(3,203)	(723)
Accumulated deficit	(494,002)	(569,744)
	1,907,385	1,679,603
Less: shares of common stock held in treasury, at cost; 88,641 and 76,027 shares at January 2, 2011 and January 3, 2010, respectively	(1,202,949)	(1,048,016)
Total Cypress stockholders' equity	704,436	631,587
Noncontrolling interest	(1,543)	(1,203)
Total equity	702,893	630,384
Total liabilities and equity	$ 1,072,801	$ 912,508

The accompanying notes are an integral part of these consolidated financial statements.

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per-share amounts)		
Revenues	$ 877,532	$ 667,786	$ 765,716
Costs and expenses (credits):			
Cost of revenues	388,359	397,204	426,284
Research and development	176,816	181,189	193,522
Selling, general and administrative	218,490	219,602	248,579
Amortization of acquisition-related intangible assets	3,028	3,804	5,830
Impairment of goodwill	—	—	351,257
Restructuring charges	2,975	15,242	21,643
Gain on divestitures	—	—	(9,966)
Total costs and expenses, net	789,668	817,041	1,237,149
Operating income (loss)	87,864	(149,255)	(471,433)
Interest income	2,515	2,101	21,904
Interest expense	(19)	(1,190)	(26,786)
Gain on sale of SunPower common stock	—	—	192,048
Other income (expense), net	4,672	3,774	(27,066)
Income (loss) from continuing operations before income taxes	95,032	(144,570)	(311,333)
Income tax provision	19,290	5,854	7,929
Income (loss) from continuing operations	75,742	(150,424)	(319,262)
Income from discontinued operations attributable to Cypress	—	—	34,386
Income from discontinued operations–noncontrolling interest, net of taxes	—	—	34,154
Noncontrolling interest, net of taxes	(866)	(946)	(311)
Net income (loss)	74,876	(151,370)	(251,033)
Less: net (income) loss attributable to noncontrolling interest	866	946	(33,843)
Net income (loss) attributable to Cypress	$ 75,742	$ (150,424)	$ (284,876)
Net income (loss) per share–basic:			
Continuing operations attributable to Cypress	$ 0.47	$ (1.03)	$ (2.12)
Discontinued operations attributable to Cypress	—	—	0.23
Net income (loss) per share–basic	$ 0.47	$ (1.03)	$ (1.89)
Net income (loss) per share–diluted:			
Continuing operations attributable to Cypress	$ 0.40	$ (1.03)	$ (2.12)
Discontinued operations attributable to Cypress	—	—	0.23
Net income (loss) per share–diluted	$ 0.40	$ (1.03)	$ (1.89)
Shares used in net income (loss) per share calculation:			
Basic	161,114	145,611	150,447
Diluted	191,377	145,611	150,447

The accompanying notes are an integral part of these consolidated financial statements.

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Noncontrolling Interest	Total Equity
	Shares	Amount				Shares	Amount		
					(In thousands)				
Balances at December 30, 2007	192,332	$ 1,923	$2,501,615	$ 11,632	$ (137,253)	30,684	$ (606,108)	$ 54	$1,771,863
Comprehensive loss:									
Net loss attributable to Cypress	—	—	—	—	(284,876)	—	—	—	(284,876)
Net unrealized loss on available-for-sale investments	—	—	—	(3,125)	—	—	—	—	(3,125)
Net unrealized loss on derivatives	—	—	—	(212)	—	—	—	—	(212)
Total comprehensive loss	—	—	—	—	—	—	—	—	(288,213)
Issuance of common shares under employee stock plans	12,517	125	55,522	—	—	—	—	—	55,647
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	573	(6,163)	—	(6,163)
Excess tax benefits from stock-based award activities	—	—	9,132	—	—	—	—	—	9,132
Proceeds from termination of convertible note hedge and warrants	—	—	7,762	—	—	—	—	—	7,762
Repurchases of common shares	—	—	—	—	—	37,076	(375,560)	—	(375,560)
Stock-based compensation	—	—	128,798	—	—	—	—	—	128,798
Noncontrolling interest and other	—	—	(18)	—	—	—	—	(311)	(329)
Shares received upon settlement of outstanding employee loans under the stock purchase assistance plan	—	—	—	—	—	13	(347)	—	(347)
Adjustment for convertible debt	—	—	(200,242)	—	—	—	—	—	(200,242)
Spin-off of SunPower	—	—	(457,633)	(5,762)	(2,502)	—	1,976	—	(463,921)
Balances at December 28, 2008	204,849	2,048	2,044,936	2,533	(424,631)	68,346	(986,202)	(257)	638,427
Comprehensive loss:									
Net loss attributable to Cypress	—	—	—	—	(150,424)	—	—	—	(150,424)
Net unrealized gain on available-for-sale investments	—	—	—	1,988	—	—	—	—	1,988
Net unrealized gain on derivatives	—	—	—	9	—	—	—	—	9
Total comprehensive loss	—	—	—	—	—	—	—	—	(148,427)
Issuance of common shares under employee stock plans	30,560	306	101,332	—	—	—	—	—	101,638
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	1,890	(15,493)	—	(15,493)
Redemption of convertible debt	—	—	(23,553)	—	—	—	—	—	(23,553)
Unwinding of hedge for convertible debt	—	—	3,312	—	—	—	—	—	3,312
Yield enhancement structured agreements, net	—	—	1,048	—	—	—	—	—	1,048
Repurchases of common shares	—	—	—	—	—	5,791	(46,321)	—	(46,321)
Stock-based compensation	—	—	120,662	—	—	—	—	—	120,662
Reclassification of impairment loss on auction rate securities	—	—	—	(5,253)	5,253	—	—	—	—
Noncontrolling interest and other	—	—	(21)	—	58	—	—	(946)	(909)
Balances at January 3, 2010	235,409	$ 2,354	$2,247,716	$ (723)	$ (569,744)	76,027	$(1,048,016)	$ (1,203)	$ 630,384

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Noncontrolling Interest	Total Equity
	Shares	Amount				Shares	Amount		
					(In thousands)				
Balances at January 3, 2010	235,409	$ 2,354	$2,247,716	$ (723)	$ (569,744)	76,027	$(1,048,016)	$ (1,203)	$ 630,384
Comprehensive income:									
Net income attributable to Cypress	—	—	—	—	75,742	—	—	—	75,742
Net unrealized loss on available-for-sale investments	—	—	—	(1,975)	—	—	—	—	(1,975)
Other	—	—	—	(505)	—	—	—	—	(505)
Total comprehensive income	—	—	—	—	—	—	—	—	73,262
Issuance of common shares under employee stock plans	23,985	240	96,624	—	—	—	—	—	96,864
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	1,103	(14,104)	—	(14,104)
Yield enhancement structured agreements, net	—	—	(34,318)	—	—	10,000	(114,917)	—	(149,235)
Repurchases of common shares	—	—	—	—	—	1,511	(25,912)	—	(25,912)
Stock-based compensation	—	—	91,974	—	—	—	—	—	91,974
Noncontrolling interest	—	—	—	—	—	—	—	(340)	(340)
Balances at January 2, 2011	259,394	$ 2,594	$2,401,996	$ (3,203)	$ (494,002)	88,641	$(1,202,949)	$ (1,543)	$ 702,893

The accompanying notes are an integral part of these consolidated financial statements.

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$ 74,876	$ (151,370)	$ (251,033)
Less income from discontinued operations, net of taxes	—	—	(68,540)
Income (loss) from continuing operations	$ 74,876	$ (151,370)	$ (319,573)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	52,528	55,799	73,876
Stock-based compensation expense	91,459	141,812	122,345
Interest and other non-cash expense related to convertible debt	—	1,090	(147,044)
Gain on extinguishment of debt	—	—	(2,193)
Excess tax benefits from stock-based award activities	—	—	(9,132)
Impairment of goodwill	—	—	351,257
Impairment of investments	443	2,549	13,355
Impairment of assets	4,926	—	—
Write-off of debt issuance costs	—	—	4,800
(Gain) loss on property and equipment, net	(823)	2,146	8,004
Gain on divestitures	—	—	(9,966)
Gain on sale of SunPower's common stock	—	—	(192,048)
Gain on investments	(3,906)	(822)	—
Restructuring charges	5,366	15,242	21,643
Deferred income taxes and other tax liabilities	15,033	2,056	(26,443)
Changes in operating assets and liabilities:			
Accounts receivable	(30,767)	4,983	7,532
Inventories	(10,049)	18,276	(1,015)
Other assets	(11,013)	18,810	67,850
Accounts payable and other accrued liabilities	18,797	(14,684)	103,503
Deferred revenues less cost of revenues	55,876	(6,584)	43,966
Net cash provided by operating activities of continuing operations	262,746	89,303	110,717
Net cash provided by operating activities of discontinued operations	—	—	107,845
Net cash provided by operating activities	262,746	89,303	218,562
Cash flows from investing activities:			
Purchases of available-for-sale investments	(140,349)	(46,768)	(176,458)
Proceeds from sales or maturities of available-for-sale investments	32,523	24,490	362,581
Proceeds from sales of marketable equity investments	4,680	—	—
Proceeds from sale of SunPower's common stock	—	—	222,474
Net employee contributions to (distributions of) deferred compensation plan	2,141	(665)	1,417
Cash paid for other investments	(2,000)	(76)	(1,737)
Acquisition of property, plant and equipment	(50,786)	(25,823)	(42,132)
Cash used for acquisitions, net of cash acquired	—	—	(41,551)
Proceeds from divestitures	—	—	11,000
Proceeds from sales of property and equipment	3,057	5,716	1,782
Net cash provided by (used in) investing activities of continuing operations	(150,734)	(43,126)	337,376
Net cash used in investing activities of discontinued operations	—	—	(167,111)
Net cash provided by (used in) investing activities	(150,734)	(43,126)	170,265

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Cash flows from financing activities:			
Excess tax benefits from stock-based award activities	—	—	9,132
Withholding of common shares for tax obligations on vested restricted shares	(14,104)	(15,493)	(6,163)
Redemption of convertible debt	—	(51,552)	(742,605)
Proceeds from termination of convertible note hedge and warrants	—	3,312	7,762
Repurchase of common shares	(25,912)	(46,321)	(375,560)
Issuance of common shares under employee stock plans	96,864	101,638	55,647
Unsettled yield enhancement structured agreements	(43,925)	—	—
Yield enhancement structured agreements settled in cash, net	9,607	1,048	—
Yield enhancement structured agreements settled in stock	(114,917)	—	—
Net cash used in financing activities of continuing operations	(92,387)	(7,368)	(1,051,787)
Net cash provided by financing activities of discontinued operations	—	—	31,832
Net cash used in financing activities	(92,387)	(7,368)	(1,019,955)
Effect of exchange rate changes on cash and cash equivalents	—	—	(1,163)
Net increase (decrease) in cash and cash equivalents	19,625	38,809	(632,291)
Cash and cash equivalents, beginning of year	243,558	204,749	1,093,657
Cash and cash equivalents, end of year	263,183	243,558	461,366
Less cash and cash equivalents of discontinued operations	—	—	(256,617)
Cash and cash equivalents of continuing operations, end of year	$ 263,183	$ 243,558	$ 204,749
Supplemental disclosures:			
Cash paid for interest:			
Continuing operations	$ 20	$ 305	$ 6,181
Discontinued operations	—	—	4,856
Total	$ 20	$ 305	$ 11,037
Cash paid for income taxes:			
Continuing operations	$ 2,205	$ 3,433	$ 13,703
Discontinued operations	—	—	1,265
Total	$ 2,205	$ 3,433	$ 14,968

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Cypress Semiconductor Corporation ("Cypress" or the "Company") designs, develops, manufactures and markets high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and system value. Our offerings include the PSoC® programmable system-on-chip, universal serial bus ("USB") controllers, general-purpose programmable clocks and memories. We also offer wired and wireless connectivity technologies that enhance connectivity and performance in multimedia handsets. We serve numerous markets including consumer, computation, data communications, automotive, and industrial.

Our operations outside of the United States include our manufacturing facilities, assembly and test plants and a regional headquarters in the Philippines, and sales offices and design centers located in various parts of the world.

Financial Statement Preparation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Cypress and all of our subsidiaries. Inter-company transactions and balances have been eliminated in consolidation.

On September 29, 2008, we completed the spin-off of SunPower Corporation ("SunPower"), a majority owned subsidiary through the distribution of a tax-free stock dividend to our stockholders. As a result, our historical financial statements have been restated to account for SunPower as a discontinued operation for all periods presented in this Annual Report on Form 10-K. See Note 3 for further discussion.

Unless otherwise indicated, the Notes to the Consolidated Financial Statements relate to the discussion of our continuing operations.

Fiscal Years

Our fiscal year ends on the Sunday closest to December 31. Fiscal 2010 ended on January 2, 2011, fiscal 2009 ended on January 3, 2010 and fiscal 2008 ended on December 28, 2008. Fiscal 2010 and fiscal 2008 contained 52 weeks while fiscal 2009 contained 53 weeks.

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and assumptions used in these consolidated financial statements primarily include those related to revenue recognition, inventory valuation, valuation of goodwill and intangible assets, valuation of investments, valuation of stock-based payment awards, allowances for doubtful accounts, warranty reserves, restructuring costs, certain other accrued liabilities and tax valuation allowances. Actual results could differ from those estimates. To the extent there are material differences between the estimates and actual results our future results of operations will be impacted.

Fair Value of Financial Instruments

For certain of our financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these items. Certificates of deposit are carried at cost which approximates fair value based on current

interest rates. Investments in available-for-sale securities are carried at fair value. See Note 7 for a detailed discussion of the fair value measurements on our available-for-sale investments and Note 15 regarding the fair value of our convertible debt.

Cash and Cash Equivalents

Highly liquid investments with original or remaining maturities of ninety days or less at the date of purchase are considered cash equivalents.

Investments

All of our investments in debt securities and equity securities in publicly traded companies are classified as available-for-sale securities. Available-for-sale debt securities with maturities greater than twelve months are classified as short-term when they are intended for use in current operations. Investments in available-for-sale securities are reported at fair value with unrealized gains and losses, net of tax, as a component of "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. Our certificates of deposit are non-tradable and are carried at cost. We also have equity investments in privately held companies. These investments are generally carried at cost and are included in "Other assets" in the Consolidated Balance Sheets.

We monitor our investments for impairment periodically and record appropriate reductions in carrying values when the declines are determined to be other-than-temporary. See Note 8 for a detailed discussion of the impairment losses recorded on our investments.

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. Market is based on estimated net realizable value. We write down our inventories which have become obsolete or are in excess of anticipated demand or net realizable value based upon assumptions about demand forecasts, product life cycle status, product development plans and current sales levels. Inventory reserves are not relieved until the related inventory has been sold or scrapped.

Long-Lived Assets

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets. Leasehold improvements and leasehold interests are amortized over the shorter of the estimated useful lives of the assets or the remaining term of the lease. Estimated useful lives are as follows:

Equipment	2 to 7 years
Buildings and leasehold improvements	5 to 20 years
Furniture and fixtures	3 to 7 years

We evaluate our long-lived assets, including property, plant and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of assets, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. Impairment is recognized based on the difference between the estimated fair value of the asset and its carrying value. Estimated fair value is generally measured based on quoted market prices, if available, appraisals or discounted cash flow analyses.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets

may not be recoverable. Purchased intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are reviewed for impairment as discussed above. Refer to Note 6 for more information.

Revenue Recognition

We generate revenues by selling products to distributors, various types of manufacturers including original equipment manufacturers ("OEMs") and electronic manufacturing service providers ("EMSs"). We recognize revenues on sales to OEMs and EMSs upon shipment provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no significant remaining obligations.

Sales to certain distributors are made under agreements which provide the distributors with price protection, stock rotation and other allowances under certain circumstances. Given the uncertainties associated with the rights given to these distributors, revenues and costs related to distributor sales are deferred until products are sold by the distributors to the end customers. Revenues are recognized upon receiving notification from the distributors that products have been sold to the end customers. Reported information includes product resale price, quantity and end customer shipment information as well as remaining inventory on hand. At the time of shipment to distributors, we record a trade receivable for the selling price since there is a legally enforceable right to receive payment, relieve inventory for the value of goods shipped since legal title has passed to the distributors, and defer the related margin as deferred income on sales to distributors in the Consolidated Balance Sheets. The effects of distributor price adjustments are recorded as a reduction to deferred income at the time the distributors sell the products to the end customers.

We record as a reduction to revenues reserves for sales returns, price protection and allowances based upon historical experience rates and for any specific known customer amounts. We also provide certain distributors and EMSs with volume-pricing discounts, such as rebates and incentives, which are recorded as a reduction to revenues at the time of sale. Historically these volume discounts have not been significant.

Shipping and Handling Costs

We record costs related to shipping and handling in cost of revenues.

Advertising Costs

Advertising costs consist of development and placement costs of our advertising campaigns and are charged to expense when incurred. Advertising expense was approximately $4.0 million, $4.5 million and $7.7 million for fiscal 2010, 2009 and 2008, respectively.

Foreign Currency Transactions

We use the United States dollar predominately as the functional currency for our foreign entities. Assets and liabilities of these entities are remeasured into the United States dollar using exchange rates in effect at the end of the period, except for non-monetary assets and liabilities, such as property, plant and equipment, which are remeasured using historical exchange rates. Revenues and expenses are remeasured using average exchange rates in effect for the period, except for items related to assets and liabilities, such as depreciation, that are remeasured using historical exchange rates. The resulting gains and losses from foreign currency remeasurement are included in "Other income (expense), net" in the Consolidated Statements of Operations.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk are primarily cash equivalents, debt investments and trade accounts receivable. Our investment policy requires cash investments to be placed with high-credit quality institutions and limits the amount of credit risk from any one issuer. We

perform ongoing credit evaluations of our customers' financial condition whenever deemed necessary and generally do not require collateral. We maintain an allowance for doubtful accounts based upon the expected collectability of all accounts receivable.

One global distributor, Avnet, Inc., accounted for 17% of consolidated accounts receivable as of January 2, 2011. One global distributor, Avnet, Inc., accounted for 16% and one contract manufacturer of an OEM, Flextronics, accounted for 11% of consolidated accounts receivable as of January 3, 2010. One global distributor, Avnet, Inc., accounted for 13% of consolidated accounts receivable as of December 28, 2008.

Two global distributors, Avnet, Inc. and Arrow Electronics, Inc., accounted for 15% and 10%, respectively, of our total revenues for fiscal 2010. One global distributor, Avnet, Inc., accounted for 14% of our total revenues for fiscal 2009. Two global distributors, Avnet, Inc. and Arrow Electronics, Inc., accounted for 13% and 11%, respectively, of our total revenues for fiscal 2008. There was no single end customer in fiscal 2010, 2009 or 2008 that accounted for more than 10% of total revenue.

Income Taxes

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when management cannot conclude that it is more likely than not that a tax benefit will be realized.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If the estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued a new standard which amends the consolidation rules related to variable interest entities. The new standard eliminates a mandatory quantitative approach to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity in favor of a qualitatively focused analysis and require an ongoing reassessment of whether an entity is the primary beneficiary. We adopted this standard in the first quarter of fiscal 2010. The adoption did not impact our consolidated financial statements.

In October 2009, the FASB issued a new standard for revenue recognition with multiple deliverables. The new standard impacts the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units for accounting purposes. Additionally, the new standard modifies the manner in which the arrangement consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards are required to be adopted in the first quarter of 2011; however, early adoption is permitted. We do not expect these new standards to significantly impact our consolidated financial statements.

In October 2009, the FASB issued a new standard for the accounting for certain revenue arrangements that include software. This new standard amends the scope of pre-existing software revenue guidance by removing from the guidance tangible products and certain software. The new standard is required to be adopted in the first quarter of 2011; however, early adoption is permitted. We do not expect these new standards to significantly impact our consolidated financial statements.

In January 2010, the FASB issued an updated standard related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). This updated standard also requires that an entity provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. This updated standard is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. Except for the Level 3 activity disclosure, these updated standard was adopted in the first quarter of fiscal 2010. The adoption did not impact our consolidated financial statements.

NOTE 2. REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

Impact of Adoption of Accounting Guidance on Convertible Debt

Effective January 1, 2009, we adopted the new accounting guidance on convertible debt instruments that have a "net settlement feature," which means instruments that by their terms may be settled either wholly or partially in cash upon conversion. Under the guidance, the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion must be accounted for separately in a manner reflective of our nonconvertible debt borrowing rate. Since our 1.00% Notes and our 1.25% convertible subordinated notes ("1.25% Notes" were issued in 2003 which we redeemed in February 2007), had an equity component that could be settled in cash or equity, both debt instruments qualified for this treatment.

Our effective borrowing rate for nonconvertible debt at the time of issuance of the 1.00% Notes was estimated to be 6.15% and for our 1.25% Notes it was estimated to be 6.20%. For the 1.00% Notes, this resulted in $70.6 million of the $600.0 million aggregate principal amount of debentures issued being attributable to equity. For the 1.25% Notes, this resulted in $126.0 million of the $600.0 million aggregate principal amount of debentures issued being attributable to equity.

The cumulative effect as of December 29, 2008 (the first day of fiscal 2009) of the change in accounting principle was a decrease to convertible debt of approximately $1.0 million for the discount on the 1.00% Notes, a decrease to additional paid-in capital of approximately $43.4 million, a decrease to accumulated deficit of approximately $44.5 million and an increase to debt issuance cost of approximately $0.1 million. As a result of the change in the accounting principle, the cumulative effect of the higher interest cost from both our 1.00% and 1.25% Notes is being offset by the losses on our extinguishment of debt which are now being recorded to equity.

Our adoption of the new guidance resulted in higher interest and other income of $144.4 million in fiscal 2008. As of December 28, 2008, there was $1.0 million of the initial $70.6 million debt discount (1.00% Notes) which remained unamortized. As of September 27, 2009, all of the debt had matured or been redeemed and the debt discount was fully amortized. The tax effect of our adoption was immaterial to our consolidated financial statements.

Inventory Adjustment

During the third quarter of 2009, we identified historically immaterial errors related to the value of our raw material inventory balances located in the Philippines. We assessed the materiality of these errors on prior period financial statements and concluded that the errors were not material to any prior annual or interim periods but the cumulative error would be material in the third quarter of fiscal 2009, if the entire correction was recorded in the third quarter. Accordingly, we have revised certain prior year amounts and balances to allow for the correct recording of these transactions.

The following table summarizes the effects of the new guidance regarding the convertible debt and the correction to inventory and accumulated deficit on our Consolidated Statements of Operations for the year ended December 28, 2008 and on our Consolidated Balance Sheet as of December 28, 2008:

	Year Ended December 28, 2008
	(In thousands)
Operating loss as reported	$ (469,868)
Correction of inventory error	(1,565)
Operating loss as revised	$ (471,433)
Loss from continuing operations as reported	$ (462,136)
Adjustment per convertible debt	144,439
Correction of inventory error	(1,565)
Loss from continuing operations as revised	$ (319,262)

	As of December 28, 2008
	(In thousands)
Inventories as reported	$ 121,889
Correction of inventory error	(7,027)
Inventories as revised	$ 114,862
Convertible debt as reported	$ 27,999
Adjustment per convertible debt	(976)
Convertible debt as revised	$ 27,023

There was no tax effect for the inventory error correction for fiscal year 2008 due to the immaterial impact in foreign jurisdictions and the negligible impact on our net operating loss carry forwards in the United States against which we have a full valuation allowance. For fiscal 2008, the impact of the error correction on gross profit was $1.6 million. This amount represented 0.5% of the gross margin for fiscal 2008. Additionally, there was no impact on the Consolidated Statements of Cash Flows in fiscal 2008.

NOTE 3. SUNPOWER

The following table summarizes our historical ownership interest in SunPower which shares were distributed to our stockholders in the fourth quarter of 2008:

	As of September 28, 2008
Number of shares of SunPower Class B common stock owned by Cypress	42.0 million
As a percentage of SunPower's total outstanding capital stock	50%
As a percentage of SunPower's total outstanding capital stock on a fully diluted basis	47%
As a percentage of the total voting power of SunPower's outstanding capital stock	89%

Sale of SunPower's Common Stock:

In fiscal 2008, we sold 2.5 million shares of SunPower Class A common stock (which were converted from Class B) in a private sale and received net proceeds of $222.5 million. The transaction resulted in a gain of $192.0 million.

Sale of Manufacturing Facility:

In fiscal 2003, SunPower entered into a lease agreement with us under which SunPower leased a manufacturing facility owned by us with approximately 215,000 square feet in the Philippines and a sublease for the land owned by an unaffiliated third party. SunPower had the right to purchase the facility from us and assume the lease for the land at any time for an amount equal to our original purchase price of $8.0 million, plus interest computed on a variable index starting on the date of purchase by us until the sale to SunPower. In the second quarter of fiscal 2008, SunPower exercised its right and purchased the facility from us and assumed the lease for the land from the unaffiliated third party for a total purchase price of approximately $9.5 million.

Spin-Off of SunPower

In the third quarter of 2008, a committee of our Board of Directors (the "Board") approved the distribution of the SunPower Class B common stock held by us to our stockholders. On September 29, 2008, we completed the distribution of 42.0 million shares of SunPower Class B common stock to our stockholders (the "Spin-Off").

We received a favorable ruling from the Internal Revenue Service ("IRS") in April 2008 with respect to certain tax issues arising under Section 355 of the Internal Revenue Code in connection with the Spin-Off. The distribution was structured to be tax-free to us and our stockholders for U.S. federal income tax purposes, except in respect to cash received in lieu of fractional shares.

See Note 9 for a discussion of the adjustments approved by our Board to our stock plans as a result of the Spin-Off and Note 18 for a discussion of the amended tax sharing agreement between SunPower and us as a result of the Spin-Off.

Discontinued Operations Attributable to Cypress:

Our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. The assets, liabilities and minority interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheets.

The following table summarizes the results of operations related to the discontinued operations through the date of the Spin-Off:

	Year Ended December 28, 2008
	(In thousands)
Revenues	$ 1,033,952
Costs and expenses, net	967,716
Income (loss) from discontinued operations attributable to Cypress before income taxes	66,236
Income tax benefit (provision)	(31,850)
Income from discontinued operations attributable to Cypress, net of taxes	$ 34,386

The distribution of the SunPower Class B common stock on September 29, 2008 resulted in the elimination of $996.6 million of net assets of discontinued operations and a reduction of $463.9 million to stockholders' equity.

NOTE 4. BUSINESS COMBINATION

Simtek Corporation ("Simtek")

In September 2008, we completed the acquisition of Simtek, a publicly traded manufacturer of non-volatile static random access memory integrated circuits used in a variety of systems. The purchase was completed through a step acquisition and the total consideration included $3.6 million which reflects an initial investment we made in Simtek in prior periods. This initial investment consisted of a then 5% equity ownership and warrants to purchase 2.5 million shares of Simtek's common stock. In September 2008, we completed a cash tender offer and purchased all of Simtek's outstanding common stock not owned by us at a purchase price of $2.60 per share for a total cash payment of $43.9 million and incurred direct transaction costs of $1.1 million. The following table summarizes the total purchase price:

(In thousands)	
Cash	$ 43,853
Initial investment	3,560
Transaction costs	1,126
Total purchase price	$ 48,539

The fair value of the assets acquired and liabilities assumed was recorded in our consolidated balance sheet as of the acquisition date. The results of operations of Simtek were included in our consolidated results of operations subsequent to the acquisition date. Simtek is included in our Memory and Imaging Division.

Purchase Price Allocation:

We finalized the purchase price allocation in the fourth quarter of fiscal 2008. The following table summarizes the amounts:

	As Adjusted (In thousands)
Net tangible assets	$ 811
Acquired identifiable intangible assets:	
Purchased technology	12,975
Backlog	1,116
Customer relationships	370
Goodwill	33,267
Total purchase consideration	$ 48,539

Net Tangible Assets:

Net tangible assets consisted of the following:

(In thousands)	
Cash and cash equivalents	$ 2,302
Accounts receivable, net	2,451
Inventories	4,933
Other	1,430
Total assets acquired	11,116
Accounts payable	(8,476)
Other accrued expenses and liabilities	(1,829)
Total liabilities assumed	(10,305)
Total net tangible assets	$ 811

Acquired Identifiable Intangible Assets:

The following table presents certain information on the acquired identifiable intangible assets:

Intangible Assets	Method of Valuation	Discount Rate Used	Estimated Useful Lives
Purchased technology	Income Approach	18%	4–6 years
Backlog	Income Approach	10%	0.5 year
Customer relationships	Cost Approach	—	1.5 years

In-Process Research and Development:

We identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. In identifying and analyzing Simtek's potential in-process research and development projects, we considered key characteristics of the technology as well as project stages of development, the time and resources needed to complete the current projects, the expected income-generating abilities of the resulting projects, the target markets and associated risks. We concluded that Simtek had one in-process research and development project, which is a higher density form of non-volatile dynamic random access memory for gaming, automated teller machine and solid state disk drive applications. Using the income approach method with a discount rate of 22%, we determined that the fair value of the in-process research and development project was zero at the date of acquisition.

Goodwill:

Simtek's non-volatile memory products provide the high-speed memory access of standard static random access memories, but retain data when power is turned off—a feature critical to applications where secure data storage is essential to system functionality. The acquisition will enable us to integrate Simtek's technology into many of our products, providing a highly integrated control and power failure solution for complex analog and digital systems and accelerating acceptance of our products in various applications and markets. These factors primarily contributed to a purchase price that resulted in goodwill. Goodwill that resulted from the acquisition is not deductible for tax purposes.

Subsequent to the acquisition, we determined that our goodwill was other-than-temporarily impaired and recorded an impairment loss of $351.3 million, which included $33.3 million related to the Simtek acquisition, for the year ended December 28, 2008. See Note 6 for more information.

Preexisting Relationship:

Prior to the acquisition in September 2008, Cypress and Simtek had a joint license and development agreement under which we licensed certain intellectual property from Simtek to develop non-volatile memory products and made a non-refundable prepayment of royalties to Simtek. The agreement was settled upon the completion of the acquisition. In accordance with the accounting guidance relating to the accounting for a preexisting relationship between parties to a business combination, we recorded a settlement loss of $1.1 million as a result of the termination of the agreement in the Consolidated Statement of Operations for fiscal 2008.

Pro Forma Financial Information:

The following unaudited pro forma financial information presents the combined results of operations of Cypress and Simtek as if the acquisitions had occurred as of the beginning of fiscal 2008:

(In thousands, except per-share amounts)	Year Ended December 28, 2008
Revenues	$ 784,578
Income (loss) from continuing operations	$ (336,473)
Income (loss) per share from continuing operations:	
Basic	$ (2.24)
Diluted	$ (2.24)

The unaudited pro forma financial information should not be taken as representative of our future consolidated results of operations or financial condition.

NOTE 5. DIVESTITURES

In fiscal 2010 and 2009, we did not complete any divestitures.

In fiscal 2008, we completed the sale of certain product lines of our subsidiary, Silicon Light Machines ("SLM"), to Dainippon Screen Manufacturing Co. Ltd. in Japan for $11.0 million in cash. SLM was a part of our Emerging Technology segment. The divestiture included SLM's micro-electro-mechanical system solutions for commercial printing and other imaging applications. We retained SLM's laser optical navigation sensor product family.

In connection with this divestiture, we recorded a gain of $10.0 million for the year ended December 28, 2008. The following table summarizes the components of the gain:

(In thousands)	
Cash proceeds	$ 11,000
Assets sold and liabilities assumed:	
Accounts receivable and inventories	(1,700)
Other	816
Transaction costs	(150)
Gain on divestiture	$ 9,966

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill at January 2, 2011 was $31.8 million in the Consumer and Computation Division ("CCD") and was unchanged from the balance at January 3, 2010. CCD is the only reportable business segment with goodwill.

Impairment of Goodwill:

We apply a fair value based impairment test to the net book value of goodwill on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairment of goodwill requires a two-step process. The first step is a comparison of the estimation of fair value of all reporting units to the carrying value of the calculated net assets. If step one indicates that impairment potentially exists, a second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the implied fair value of goodwill is less than its carrying value.

In the fourth quarter of fiscal 2010, we performed the annual assessment of the carrying value of our goodwill and no impairment charge was recorded.

Intangible Assets

The following tables present details of our total intangible assets:

As of January 2, 2011	Gross	Accumulated Amortization	Net
		(In thousands)	
Acquisition-related intangible assets	$ 100,134	$ (91,490)	$ 8,644
Non-acquisition related intangible assets	10,548	(6,693)	3,855
Total intangible assets	$ 110,682	$ (98,183)	$ 12,499

As of January 3, 2010	Gross	Accumulated Amortization	Net
		(In thousands)	
Purchase technology	$ 100,134	$ (88,766)	$ 11,368
Patents, tradenames, customer relationships and backlog	22,009	(21,937)	72
Other	4,297	(4,190)	107
Total acquisition-related intangible assets	126,440	(114,893)	11,547
Non-acquisition related intangible assets	8,713	(5,128)	3,585
Total intangible assets	$ 135,153	$ (120,021)	$ 15,132

As of January 2, 2011, the estimated future amortization expense of intangible assets was as follows:

(In thousands)	
2011	$ 4,440
2012	4,340
2013	3,247
2014	472
Total future amortization expense	$12,499

NOTE 7. FAIR VALUE MEASUREMENTS

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of January 2, 2011:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Financial Assets				
Investments:				
Commercial paper	$ —	$ 2,399	$	$ 2,399
Money market funds	105,058	—	—	105,058
U.S. treasuries	50,054	—	—	50,054
Corporate notes/bonds	—	52,503	—	52,503
Federal agency	—	25,958	—	25,958
Auction rate securities	—	—	23,708	23,708
Marketable equity securities	804	—	—	804
Employee deferred compensation plan:				
Cash equivalents	1,771	—	—	1,771
Money market funds	386	—	—	386
Mutual funds	20,579	—	—	20,579
Fixed income	3,045	—	—	3,045
Equity securities	4,677	—	—	4,677
Total financial assets	$ 186,374	$ 80,860	$ 23,708	$ 290,942
Financial Liabilities				
Employee deferred compensation plan	$ 29,974	$ —	$ —	$ 29,974
Total financial liabilities	$ 29,974	$ —	$ —	$ 29,974

The following table presents our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of January 3, 2010:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Financial Assets				
Investments:				
Commercial paper	$ —	$ —	$ 615	$ 615
Money market funds	122,111	—	—	122,111
U.S. treasuries	6,070	—	—	6,070
Corporate notes/bonds	—	20,896	—	20,896
Federal agency	—	5,012	—	5,012
Auction rate securities	—	—	32,740	32,740
Marketable equity securities	5,053	—	—	5,053
Employee deferred compensation plan:				
Cash and cash equivalents	1,960	—	—	1,960
Money market funds	2,227	—	—	2,227
Mutual funds	15,416	—	—	15,416
Fixed income	1,941	—	—	1,941
Equity securities	4,120	—	—	4,120
Derivative instruments:				
Foreign currency forward contracts	—	8	—	8
Total financial assets	$ 158,898	$ 25,916	$ 33,355	$ 218,169
Financial Liabilities				
Employee deferred compensation plan	$ 25,071	$ —	$ —	$ 25,071
Total financial liabilities	$ 25,071	$ —	$ —	$ 25,071

Valuation Techniques:

We use quoted prices for identical instruments in active markets to determine the fair value for our Level 1 financial instruments, which include U.S. treasuries, money market funds and marketable equity securities. In addition, our employee deferred compensation plan is classified as Level 1 because the plan invests in mutual funds or our common stock.

If quoted prices in active markets for identical assets or liabilities are not available to determine the fair value of our financial instruments, then we use observable inputs including benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These investments are classified as Level 2 and primarily consist of federal agency, commercial paper and corporate notes/bonds. In addition, we have derivative instruments that are classified as Level 2 financial assets. We determine the fair value of these instruments based on modeling techniques that include inputs such as market volatilities, spot rates and interest differentials from published sources.

Our Level 3 financial assets primarily include investments in auction rate securities and a commercial paper investment. The valuation techniques are described as follows:

Auction Rate Securities:

As of January 2, 2011, all of our auction rate securities are classified as Level 3 financial instruments. Auction rate securities are investments with contractual maturities generally between 20 and 30 years and are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations with interest rates resetting every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are primarily backed by student loans originated under the Federal Family Education Loan Program (FFELP), which are guaranteed by the U.S. Federal Department of Education.

As of January 2, 2011, all of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, we have classified our auction rate securities totaling $23.7 million as long-term investments as of January 2, 2011.

During fiscal 2010, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at January 2, 2011 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 1.57%—5.32%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 2, 2011, representing a decline in value of approximately $2.6 million which was recorded in accumulated other comprehensive income (loss) as an unrealized loss.

As a result of our adoption of the amended other-than-temporary impairment guidance on debt securities in the second quarter of fiscal 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

Commercial Paper:

As of January 3, 2010, we have classified one commercial paper investment totaling $0.6 million as a Level 3 financial asset. The investment was issued through a structured investment vehicle that was impaired as the issuer was unable to raise sufficient funding to cover maturing obligations. We determined that the security had suffered other-than-temporary impairment and recorded a $0.2 million charge in fiscal 2009. The amount of the write-down was determined by comparing the carrying value of the investment to the valuation of the underlying assets of the fund. In fiscal 2010, the investment was successfully sold through an auction process and as a result, we received $0.9 million in cash and recognized a gain of $0.3 million in "Other income (expense), net."

The following table presents a summary of changes in our Level 3 investments measured at fair value on a recurring basis:

	Auction Rate Securities	Commercial Paper	Total
		(In thousands)	
Balance as of December 28, 2008	$ 34,890	$ 812	$ 35,702
Unrealized gain	150	—	150
Impairment loss	—	(197)	(197)
Amount settled	(2,300)	—	(2,300)
Balance as of January 3, 2010	$ 32,740	$ 615	$ 33,355
Unrealized gain	1,118	—	1,118
Amount settled	(10,150)	(615)	(10,765)
Balance as of January 2, 2011	$ 23,708	$ —	$ 23,708

NOTE 8. INVESTMENTS

Available-For-Sale Securities and Other Investments

The following tables summarize our available-for-sale securities and other investments:

As of January 2, 2011	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Cash equivalents:				
Money market funds	$ 105,058	$ —	$ —	$ 105,058
Total cash equivalents	105,058	—	—	105,058
Short-term investments:				
Certificate of deposit	40,163	—	—	40,163
U.S. treasuries	50,053	2	(1)	50,054
Corporate notes/bonds	52,390	135	(22)	52,503
Federal agency	25,983	5	(30)	25,958
Commercial paper	2,400	—	—	2,400
Total short-term investments	170,989	142	(53)	171,078
Long-term investments:				
Auction rate securities	26,300	—	(2,592)	23,708
Marketable equity securities	1,187	—	(383)	804
Total long-term investments	27,487	—	(2,975)	24,512
Total available-for-sale securities and other investments	$ 303,534	$ 142	$ (3,028)	$ 300,648

As of January 3, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Cash equivalents:				
Money market funds	$ 122,111	$ —	$ —	$ 122,111
Total cash equivalents	122,111	—	—	122,111
Short-term investments:				
Certificate of deposit	20,069	—	—	20,069
U.S. treasuries	6,013	57	—	6,070
Corporate notes/bonds	20,813	83	—	20,896
Marketable equity securities	1,053	2,983	—	4,036
Federal agency	4,988	26	(2)	5,012
Total short-term investments	52,936	3,149	(2)	56,083
Long-term investments:				
Auction rate securities	36,450	—	(3,710)	32,740
Commercial paper	615	—	—	615
Marketable equity securities	1,187	—	(170)	1,017
Total long-term investments	38,252	—	(3,880)	34,372
Total available-for-sale securities and other investments	$ 213,299	$ 3,149	$ (3,882)	$ 212,566

The following tables summarize the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

As of January 2, 2011	Less Than Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Auction rate securities	$ —	$ —	$ 23,708	$ (2,592)	$ 23,708	$ (2,592)
Federal agency	15,963	(29)	—	—	15,963	(29)
Corporate notes/bonds	16,890	(22)	—	—	16,890	(22)
Marketable equity securities	—	—	804	(383)	804	(383)
Total	$ 32,853	$ (51)	$ 24,512	$ (2,975)	$ 57,365	$ (3,026)

As of January 3, 2010	Less Than Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Auction rate securities	$ —	$ —	$ 32,740	$ (3,710)	$ 32,740	$ (3,710)
Federal agency	2,003	(2)	—	—	2,003	(2)
Marketable equity securities	—	—	1,017	(170)	1,017	(170)
Total	$ 2,003	$ (2)	$ 33,757	$ (3,880)	$ 35,760	$ (3,882)

The available-for-sale debt investments that we hold are all high investment grade. The unrealized losses on our investments are due primarily to changes in interest rates and market conditions of the underlying securities. Because we do not intend to sell and it is likely we will not be required to sell before recovering cost, which may be at maturity, except for the impairment recorded in the respective periods, we did not consider these investments to be other-than-temporarily impaired as of January 2, 2011 and January 3, 2010.

For individual marketable equity securities with unrealized losses, we evaluated the near-term prospects in relation to the severity and duration of the impairment. Based on that evaluation and our ability and intent to hold these investments for a reasonable period of time, we did not consider these investments to be other-than-temporarily impaired as of January 2, 2011 and January 3, 2010.

As of January 2, 2011, contractual maturities of our available-for-sale non-equity investments and certificates of deposit were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	$ 199,675	$ 199,676
Maturing in one to three years	76,372	76,461
Maturing in more than three years	26,300	23,707
Total	$ 302,347	$ 299,844

Realized gains from sales of available-for-sale and non-equity investments were $0.3 million and $0.8 million for fiscal 2010 and 2009, respectively. Realized gains and losses from sales of available-for sale and non-equity investments were immaterial in fiscal 2008.

Proceeds from sales or maturities of available-for-sale investments and non-equity investments were $32.5 million, $24.4 million and $362.2 million for fiscal 2010, 2009 and 2008, respectively.

Investments in Equity Securities

The following table summarizes our equity investments:

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Short-term investments:		
Marketable equity securities	$ —	$ 4,036
Long-term investments:		
Marketable equity securities	804	1,017
Non-marketable equity securities	2,000	408
Total long-term investments	2,804	1,425
Total equity investments	$ 2,804	$ 5,461

During fiscal 2010, we sold our equity investment in one publicly traded company for $4.7 million and recognized a gain of $3.6 million. We did not sell any equity investments during fiscal 2009 or 2008.

Impairment of Investments

We review our investments periodically for impairment and recognize an impairment loss when the carrying value of an investment exceeds its fair value and the decline in value is considered other-than-temporary. The following table summarizes the impairment loss recorded in the Consolidated Statements of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per-share amounts)		
Debt securities:			
Commercial paper	$ —	$ 197	$ 253
Auction rate securities	—	1,393	3,860
Corporate bonds	—	140	562
Equity securities:			
Marketable equity securities	—	—	86
Non-marketable equity securities	—	819	8,594
Total impairment loss	$ —	$ 2,549	$ 13,355

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION

We currently have the following employee stock plans:

1999 Stock Option Plan ("1999 Plan"):

Under the terms of the 1999 Plan, which was a non-shareholder approved plan, stock options could have been granted to qualified employees, including those of acquired companies and consultants of the Company or its subsidiaries, but stock options could not be granted to executive officers or directors. There are currently no shares available for grant under the 1999 Plan as the plan expired in March 2009. All unissued grants became unavailable for future grant.

1994 Amended Stock Option Plan ("1994 Amended Plan"):

In fiscal 1994, we adopted, and in fiscal 2004 and 2008 amended, the 1994 Stock Option Plan, which is a shareholder-approved plan. Under the terms of the 1994 Amended Plan, stock options, restricted stock units, restricted stock awards and stock appreciation rights may be granted to qualified employees, consultants, officers

and directors of Cypress or our subsidiaries. Awards become exercisable over a vesting period as determined by the Board and expire over terms not exceeding ten years from the date of grant for awards granted prior to May 2008, and eight years from the date of grant for awards granted after May 2008. As of January 2, 2011, approximately 10.1 million shares of stock options or 5.4 million shares of restricted stock units and restricted stock awards were available for grant under the 1994 Amended Plan. The 1994 Amended Plan will expire in April 2014.

Employee Stock Purchase Plan ("ESPP"):

Our ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The ESPP contains consecutive 18-month offering periods composed of three six-month exercise periods. The shares can be purchased at the lower of 85% of the fair market value of the common stock at the date of commencement of the offering period or at the last day of each six-month exercise period. Purchases are limited to 10% of an employee's eligible compensation, subject to a maximum annual employee contribution limit of $25,000. As of January 2, 2011, approximately 3.4 million shares were available for future issuance under the ESPP. The ESPP will expire in May 2013.

Outstanding Employee Equity Awards

In conjunction with the Spin-Off (see Note 3), the Board approved certain adjustments to our 1999 Plan and 1994 Amended Plan (together, the "Plans"). Specifically, the Board approved amendments to make proportionate adjustments to, among other things, outstanding employee equity awards, including stock options, restricted stock units and restricted stock awards under the Plans to preserve the intrinsic value of the awards before and after the Spin-Off. These changes included a proportionate adjustment in the number of shares issuable pursuant to the outstanding awards and the per-share exercise price of the options.

The Board also approved certain adjustments with respect to our ESPP to offset the decrease in our common stock price resulting from the Spin-Off. These changes included a proportionate adjustment in the offering date price per share of our common stock and maximum number of shares participants may purchase under the ESPP.

The modification of the outstanding employee equity awards and the ESPP related to the Spin-Off resulted in additional non-cash stock-based compensation. The amount was measured based upon the difference between the fair value of the awards immediately before and after the modification. Of the total additional non-cash stock-based compensation $17.1 million, $59.4 million and $61.9 million, net of forfeitures was recognized in fiscal 2010, 2009 and 2008, respectively. The remaining $8.4 million will be recognized over the remaining vesting periods on an accelerated basis, less forfeitures.

Stock-Based Compensation

The following table summarizes the stock-based compensation expense by line item in the Consolidated Statement of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
Cost of revenues	$ 22,714	$ 40,798	$ 27,950
Research and development	21,541	37,537	39,089
Selling, general and administrative	47,204	63,477	55,306
Total stock-based compensation expense	$ 91,459	$ 141,812	$ 122,345

As stock-based compensation expense recognized in the Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. The accounting guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Consolidated cash proceeds from the issuance of shares under the employee stock plans were $96.9 million, $101.6 million and $55.6 million for fiscal 2010, 2009 and 2008, respectively. We recognized an income tax benefit from stock option exercises of $9.1 million for fiscal 2008. No income tax benefit was realized from stock option exercises for fiscal 2010 and 2009. As of January 2, 2011 and January 2, 2010, stock-based compensation capitalized in inventories totaled $6.2 million and $5.7 million, respectively.

The following tables summarize the stock-based compensation expense by type of awards:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Stock options	$ 19,946	$ 56,386	$ 75,513
Restricted stock units and restricted stock awards	65,046	74,842	38,252
ESPP	6,467	10,584	8,580
Total stock-based compensation expense	$ 91,459	$ 141,812	$ 122,345

The following table summarizes the unrecognized stock-based compensation balance by type of awards as of January 2, 2011:

(In thousands)		Weighted-Average Amortization Period
		(In years)
Stock options	$ 32,369	2.05
Restricted stock units and restricted stock awards	56,956	2.86
ESPP	4,197	0.54
Total unrecognized stock-based compensation balance	$ 93,522	2.48

Valuation Assumptions

We estimate the fair value of our stock-based equity awards using the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model were as follows:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
Stock Option Plans:			
Expected life	2.3-7.0 years	2.4-7.4 years	0.5-9.9 years
Volatility	42.2%-54.5%	50.1%-60.8%	43.5%-74.4%
Risk-free interest rate	0.5%-3.1%	0.7%-3.2%	0.7%-4.2%
Dividend yield	0.0%	0.0%	0.0%
ESPP:			
Expected life	0.5-1.5 years	0.5-1.5 years	0.5-1.5 years
Volatility	44.6%-54.2%	52.6%-85.8%	43.7%-57.8%
Risk-free interest rate	0.1%-0.8%	0.2%-0.7%	1.2%-2.3%
Dividend yield	0.0%	0.0%	0.0%

Expected life: Expected life is based on historical exercise patterns, giving consideration to the contractual terms of the awards and vesting schedules. In addition, employees who display similar historical exercise behavior are grouped separately into two classes (executive officers and other employees) in determining the expected life.

Volatility: We determined that implied volatility of publicly traded call options and quotes from option traders is more reflective of market conditions and, therefore, can reasonably be a better indicator of expected volatility than historical volatility. Therefore, our volatility is based on a blend of historical volatility of our common stock and implied volatility.

Risk-free interest rate: The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

Dividend yield: Since we did not pay and do not expect to pay dividends, the expected dividend yield is zero.

Employee Equity Award Activities

Stock Options:

The following table summarizes our stock option activities:

	Year Ended					
	January 2, 2011		January 3, 2010		December 28, 2008	
	Shares	Weighted-Average Exercise Price per Share	Shares	Weighted-Average Exercise Price per Share	Shares	Weighted-Average Exercise Price per Share
	(In thousands, except per-share amounts)					
Options outstanding, beginning of year	52,411	$ 4.70	70,273	$ 4.43	81,011	$ 4.08
Granted	3,036	$ 14.27	6,444	$ 6.68	8,113	$ 5.85
Exercised	(17,990)	$ 4.57	(19,433)	$ 4.21	(14,852)	$ 3.22
Forfeited or expired	(1,387)	$ 6.36	(4,873)	$ 5.35	(3,999)	$ 4.70
Options outstanding, end of year	36,070	$ 5.51	52,411	$ 4.70	70,273	$ 4.43
Options exercisable, end of year	22,924	$ 4.18	33,895	$ 4.18	42,121	$ 4.13

The weighted-average grant-date fair value was $5.13 per share for options granted during fiscal 2010, $2.97 per share for options granted during fiscal 2009 and $2.55 per share for options granted during fiscal 2008.

The total intrinsic value of options exercised was $157.8 million for fiscal 2010, $88.8 million for fiscal 2009 and $47.9 million for fiscal 2008.

Total fair value of options vested was $16.3 million for fiscal 2010, $25.2 million for fiscal 2009 and $27.4 million for fiscal 2008.

Information regarding stock options outstanding as of January 2, 2011 was as follows:

Range of Exercise Price	Options Outstanding Shares (In thousands)	Weighted-Average Remaining Contractual Life (In years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value (In thousands)	Options Exercisable Shares (In thousands)	Weighted-Average Remaining Contractual Life (In years)	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value (In thousands)
$0.88-$2.77	3,832	3.82	$ 2.37	$ 62,107	3,457	3.40	$ 2.34	$ 56,149
$2.77-$3.53	6,668	4.52	$ 3.47	$ 100,778	6,331	4.50	$ 3.47	$ 95,673
$3.54-$4.06	4,369	3.79	$ 3.91	$ 64,106	3,744	3.49	$ 3.91	$ 54,931
$4.09-$4.76	4,136	3.69	$ 4.45	$ 58,431	3,541	3.33	$ 4.45	$ 50,041
$4.79-$5.36	3,630	4.06	$ 5.16	$ 48,732	2,891	3.31	$ 5.16	$ 38,797
$5.37-$6.17	5,974	7.28	$ 6.11	$ 74,502	1,400	6.02	$ 6.02	$ 17,582
$6.21-$8.85	3,662	7.10	$ 6.89	$ 42,612	1,231	7.01	$ 6.87	$ 14,412
$8.89-$15.24	2,431	7.17	$ 10.95	$ 18,554	292	6.96	$ 10.17	$ 2,470
$15.35-$15.35	86	7.85	$ 15.35	$ 278	1	7.85	$ 15.35	$ 2
$17.77-$17.77	1,282	7.93	$ 17.77	$ 1,034	36	7.90	$ 17.77	$ 29
	36,070	5.24	$ 5.51	$ 471,134	22,924	4.11	$ 4.18	$ 330,086

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $18.58 at the end of the fiscal 2010, which would have been received by the option holders had all option holders exercised their options as of that date and do not include substantial tax payments. The total number of in-the-money options exercisable was 22.9 million shares as of January 2, 2011.

As of January 2, 2011, stock options vested and expected to vest totaled approximately 34.2 million shares, with a weighted-average remaining contractual life of 5.13 years and a weighted-average exercise price of $5.36 per share. The aggregate intrinsic value was approximately $451.7 million.

Restricted Stock Units and Restricted Stock Awards:

The following table summarizes our restricted stock unit and restricted stock award activities:

	Year Ended January 2, 2011 Shares	Weighted-Average Fair Value per Share	Year Ended January 3, 2010 Shares	Weighted-Average Fair Value per Share	Year Ended December 28, 2008 Shares	Weighted-Average Fair Value per Share
	(In thousands, except per-share amounts)					
Non-vested, beginning of year	17,733	$ 5.51	28,745	$ 5.78	27,819	$ 5.43
Granted	2,228	$ 14.78	1,970	$ 7.86	8,008	$ 6.25
Released	(3,866)	$ 12.75	(7,510)	$ 5.07	(5,993)	$ 5.07
Forfeited	(1,125)	$ 7.14	(5,472)	$ 3.73	(1,089)	$ 4.29
Non-vested, end of year	14,970	$ 4.90	17,733	$ 5.51	28,745	$ 5.78

The balance as of January 2, 2011 included approximately 8.7 million performance-based restricted stock units and restricted stock awards granted under the 1994 Amended Plan. These performance-based awards (“PARS”) were issued to certain senior-level employees in fiscal 2007 and 2008 and can be earned ratably over a remaining period of one to two years, subject to the achievement of certain performance milestones set by the Compensation Committee of the Board. These performance milestones can include:

- stock appreciation target against the Philadelphia Semiconductor Sector Index (“SOXX”);
- certain levels of non-GAAP free cash flows, non-GAAP operating income, non-GAAP operating expense, non-GAAP gross margin percentage, non-GAAP profit-before-taxes percentage; and
- annual revenue growth.

If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods.

We estimated the fair value of the shares with the market-condition milestone using a Monte Carlo valuation model with the following weighted-average assumptions:

	February 2010	August 2009	February 2009
Volatility of common stock	39.8%	43.5%	69.6%
Volatility of the SOXX	30.3%	40.4%	57.4%
Correlation coefficient	0.77	0.71	0.69
Risk-free interest rate	0.3%	0.2%	0.3%

The fair value of the shares with the performance-related milestones was equivalent to the grant-date fair value of our common stock. In addition, we granted other performance-based and service-based restricted stock units whose fair value is typically equivalent to the grant-date fair value of our common stock.

ESPP:

During fiscal 2010, 2009 and 2008, we issued 2.6 million, 5.2 million and 0.4 million shares under our ESPP with weighted-average prices of $5.59, $12.79 and $19.93 per share and grant-date fair value of $2.40, $3.84 and $9.34 per share, respectively.

NOTE 10. BALANCE SHEET COMPONENTS

Accounts Receivable, Net

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Accounts receivable, gross	$ 121,876	$ 91,468
Allowances for doubtful accounts receivable and sales returns	(4,150)	(4,509)
Total accounts receivable, net	$ 117,726	$ 86,959

Inventories

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Raw materials	$ 7,350	$ 11,551
Work-in-process	72,072	56,947
Finished goods	22,341	22,700
Total inventories	$ 101,763	$ 91,198

Other Current Assets

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Prepaid expenses	$ 24,004	$ 22,725
Receivable from SunPower	480	2,255
Assets held for sale (see Note 11)	6,913	7,690
Other current assets	10,511	8,236
Total other current assets	$ 41,908	$ 40,906

Property, Plant and Equipment, Net

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Land	$ 26,610	$ 29,048
Equipment	965,236	946,817
Buildings, building and leasehold improvements	204,376	204,107
Furniture and fixtures	10,662	10,820
Total property, plant and equipment, gross	1,206,884	1,190,792
Less: accumulated depreciation and amortization	(946,762)	(918,172)
Total property, plant and equipment, net	$ 260,122	$ 272,620

Other Long-term Assets

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Employee deferred compensation plan (see Note 17)	$ 30,458	$ 25,664
Investments:		
Debt securities (see Note 7)	23,708	33,356
Equity securities (see Note 7)	2,804	1,425
Other assets	15,716	13,770
Total other assets	$ 72,686	$ 74,215

Other Current Liabilities

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Employee deferred compensation plan (see Note 17)	$ 29,974	$ 25,071
Restructuring accrual	3,559	3,740
Other current liabilities	32,259	27,812
Total other current liabilities	$ 65,792	$ 56,623

NOTE 11. RESTRUCTURING

We recorded restructuring charges of $3.0 million, $15.2 million and $21.6 million during fiscal 2010, 2009 and 2008, respectively. The determination of when we accrue for severance and benefits costs, and which accounting standard applies, depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement.

The following table summarizes the restructuring charges recorded in the Consolidated Statements of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Fiscal 2010 Restructuring Plan	$ 2,243	$ —	$ —
Fiscal 2008/9 Restructuring Plan	995	15,028	11,783
Fiscal 2007 Restructuring Plan	(263)	214	9,860
Total restructuring charges	$ 2,975	$ 15,242	$ 21,643

Fiscal 2010 Restructuring Plan

During the third quarter of fiscal 2010, we implemented a restructuring plan to exit certain of our back-end manufacturing operations located in the Philippines ("Fiscal 2010 Restructuring Plan"). These actions were intended to reduce the cost of our back-end manufacturing by selling our labor intensive assembly operations to a lower cost third-party subcontractor in China and by the continued shifting of these operations to our fully automated back-end processes.

To date, we recorded total restructuring charges of $2.2 million under the Fiscal 2010 Restructuring Plan, which was all related to personnel costs. As of January 2, 2011, our restructuring provision of $2.2 million was related to severance and benefits of our employees. We expect to eliminate approximately 300 manufacturing employees and 200 contractors or approximately 34% of our Philippines plant workforce by the end of fiscal 2011.

Fiscal 2008/9 Restructuring Plan

In fiscal 2008, we initiated a restructuring plan as part of a companywide cost saving initiative, which continued into 2010, that was aimed to reduce operating costs in response to the economic downturn ("Fiscal 2008/9 Restructuring Plan"). To date, we recorded a total of $27.8 million under the Fiscal 2008/9 Restructuring Plan, of which $24.2 million was related to personnel costs and $3.6 million was related to other exit costs.

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Initial provision	$ 11,611
Non-cash	(162)
Cash payments	(4,075)
Balance as of December 28, 2008	7,374
Provision	11,516
Non-cash	(1,352)
Cash payments	(14,271)
Balance as of January 3, 2010	3,267
Provision	1,104
Non-cash	(698)
Cash payments	(2,567)
Balance as of January 2, 2011	$ 1,106

We eliminated approximately 835 positions. In the fourth quarter of 2010, we completed the majority of the remaining employee terminations. The following table summarizes certain information related to the positions:

Locations	Number of Employees
Manufacturing facility in the Philippines	250
Manufacturing facility in Minnesota	160
Corporate and other	425
Total	835

Fiscal 2007 Restructuring Plan

During fiscal 2007, we implemented a restructuring plan to exit our manufacturing facility located in Round Rock, Texas ("Fiscal 2007 Restructuring Plan"). Under the Fiscal 2007 Restructuring Plan, we transitioned production from the Texas facility to our more cost-effective facility in Bloomington, Minnesota as well as

outside third-party foundries. The Fiscal 2007 Restructuring Plan included the termination of employees and the disposal of assets, primarily consisting of land, building and manufacturing equipment, located in the Texas facility.

To date, we recorded total restructuring charges of $10.4 million related to the Fiscal 2007 Restructuring Plan. Of the total restructuring charges, $8.0 million was related primarily to personnel costs and $2.4 million was related to property, plant and equipment and other exit costs. In the second quarter of fiscal 2010, we recorded a $2.4 million gain on the sale of certain equipment in our Texas facility.

We completed the termination of the remaining employees in the first quarter of fiscal 2009. All balances related to benefits were paid by the third quarter of fiscal 2009.

Assets Held for Sale:

The Texas facility ceased operations in the fourth quarter of fiscal 2008. As management has committed to a plan to sell the assets associated with the facility, we have classified the assets as held for sale and recorded the assets at the lower of their carrying amount or estimated fair value less cost to sell. Fair value was determined by an analysis of market prices for similar assets. In fiscal 2008, we recorded a write-down of $1.9 million related to the assets and $1.2 million of related disposal and other facility costs. In fiscal 2010, we recorded a $1.5 million write-down related to the assets.

The net book value of the remaining restructured assets that were classified as held for sale and included in "Other current assets" in the Consolidated Balance Sheet was $6.9 million and $7.7 million as of January 2, 2011 and January 3, 2010, respectively.

We had expected to complete the disposal of the restructured assets by the fourth quarter of fiscal 2009; however, due to the downturn and uncertainty in the commercial real estate market, we were unable to secure a buyer for the Texas facility. In response, we have revised the asking price for the property and expect to sell the facility within the next twelve months.

NOTE 12. FOREIGN CURRENCY DERIVATIVES

We operate and sell products in various global markets and purchase capital equipment using the U.S. dollar and foreign currencies. As a result, we are exposed to risks associated with changes in foreign currency exchange rates. We may use various hedge instruments from time to time to manage the exposures associated with purchases of foreign sourced equipment, net asset or liability positions of our subsidiaries and forecasted revenues and expenses. We do not enter into foreign currency derivative financial instruments for speculative or trading purposes. The counterparties to these hedging transactions are creditworthy multinational banks and the risk of counterparty nonperformance associated with these contracts is not considered to be material as of January 2, 2011.

As of January 2, 2011 and January 3, 2010, our hedge instruments consisted primarily of foreign currency forward contracts. We estimate the fair value of our forward contracts based on spot and forward rates from published sources.

We record hedges of certain foreign currency denominated monetary assets and liabilities at fair value at the end of each reporting period with the related gains or losses recorded in "Other income (expense), net" in the Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of January 2, 2011 and January 3, 2010, we had outstanding forward contracts with an aggregate notional value of $0.4 million and $1.0 million, respectively, to hedge the risks associated with foreign currency denominated assets and liabilities.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) were as follows:

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Accumulated net unrealized gains on available-for-sale investments	$ (2,698)	$ (838)
Accumulated net unrealized gains on derivatives	—	115
Other	(505)	—
Total accumulated other comprehensive income (loss)	$ (3,203)	$ (723)

NOTE 14. OTHER INCOME (EXPENSE), NET

The following table summarizes the components of other income (expense), net, recorded in the Consolidated Statements of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Amortization of debt issuance costs	$ —	$ (114)	$ (3,051)
Write-off of debt issuance costs (see Note 15)	—	—	(4,800)
Gain on investments (see Note 7)	3,906	822	—
Gain on debt extinguishment	—	—	2,193
Impairment of investments (see Note 8)	—	(2,549)	(13,355)
Changes in fair value of investments under the deferred compensation plan (see Note 17)	2,653	5,150	(10,643)
Foreign currency exchange gain (loss), net	(2,452)	(22)	2,925
Other	565	487	(335)
Total other income (expense), net	$ 4,672	$ 3,774	$ (27,066)

NOTE 15. DEBT AND EQUITY TRANSACTIONS

1.00% Convertible Senior Notes ("1.00% Notes")

1.00% Notes:

In fiscal 2007, we issued $600.0 million in principal amount of the 1.00% Notes with interest payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on September 15, 2007. The 1.00% Notes were to mature on September 15, 2009. In connection with the offering of the 1.00% Notes, we incurred approximately $12.9 million of debt issuance costs.

Tender Offer:

In September 2008, we completed a tender offer to purchase for cash up to $531.3 million in aggregate principal amount of the 1.00% Notes. Based on the final results of the tender offer, $582.4 million aggregate principal amount of the 1.00% Notes were tendered. We accepted $531.3 million of the tendered 1.00% Notes at a purchase price of $1,321.22 per $1,000 principal amount, plus accrued and unpaid interest. Because more than $531.3 million principal amount was tendered, we purchased the 1.00% Notes on a pro-rata basis. The pro-ration was based on the ratio of the principal amount of the 1.00% Notes tendered by a holder to the total principal amount of the 1.00% Notes tendered by all the holders. As a result of the tender offer, we paid $701.9 million in cash.

Open Market Purchase:

In November 2008, we made open market purchases of approximately $12.1 million of the outstanding 1.00% Notes at a slight discount to par, plus accrued interest.

Fundamental Change:

Pursuant to the applicable Indenture, the Spin-Off of SunPower (see Note 3) constituted both a fundamental change and a make-whole fundamental change to the 1.00% Notes. Consequently, the remaining holders were permitted to require us to purchase their 1.00% Notes on December 17, 2008, the fundamental change purchase date, in cash at a price equal to $1,000 principal amount of the Notes, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. On December 17, 2008, we repurchased $28.7 million of the 1.00% Notes.

Debt Maturity:

On September 15, 2009, our outstanding 1.00% Notes of approximately $28.0 million in principal matured and were settled. Holders received cash for the principal amount of the 1.00% Notes and the entire premium. The final conversion price per 1.00% Notes as calculated under the Indenture, was $1,841.76 including principal and premium. Consistent with the terms of the Indenture, on September 15, 2009, we paid approximately $51.6 million for the principal amount of 1.00% Notes, premium and accrued and unpaid interest.

Convertible Note Hedge and Warrants:

In connection with the issuance of the 1.00% Notes, we had a convertible note hedge transaction with respect to our common stock with two counterparties at the equivalent amount of common stock that would be issuable upon conversion of the 1.00% Notes. The objective of this hedge was to reduce the potential dilution upon conversion of the 1.00% Notes in the event that the market value per share of our common stock at the time of exercise is greater than the conversion price of the 1.00% Notes. In addition, we had a warrant transaction in which we sold to the same counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes.

During fiscal 2008, we terminated a portion of the convertible note hedge and warrant agreements with respect to the amount of the 1.00% Notes that were purchased by us in transactions described above. As a result of the termination, we received total net cash proceeds of $7.8 million from the option counterparties, which was recorded in "Additional paid-in capital" in the Consolidated Balance Sheet in fiscal 2008. The portion of the convertible note hedge and the warrant agreements associated with the outstanding principal amount of the 1.00% Notes remained outstanding as of December 28, 2008.

On September 15, 2009, the hedge matured and as a result we received $23.6 million from the counterparties. In addition, we repurchased and settled the outstanding warrants, issued in March 2007, through a cash payment of approximately $20.3 million to the counterparties holding the warrants.

Stock Repurchase Program

In fiscal 2008, our Board approved up to a total of $600.0 million that may be used for stock purchases under the stock repurchase program. During fiscal 2008, we used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. During fiscal 2009, we used $46.3 million to repurchase approximately 5.8 million shares at an average share price of $8.00. In light of certain tax constraints placed on us in connection with the Spin-off, we had no intentions of repurchasing additional stock under this program. Accordingly, on October 28, 2009, the Audit Committee of the Board voted to rescind the remaining $178.1 million available under the program for additional repurchases.

On October 21, 2010, our Board authorized a $600.0 million stock buyback program. The program allows us to purchase our common stock or enter into equity derivative transactions related to our common stock. The

timing and actual amount expended with the new authorized funds will depend on a variety of factors including the market price of our common stock, regulatory, legal, and contractual requirements, and other market factors. The program does not obligate us to repurchase any particular amount of common stock and may be modified or suspended at any time at our discretion.

During the fourth quarter of fiscal 2010, we used $25.9 million in cash to repurchase a total of approximately 1.5 million shares at an average share price of $17.15. As of January 2, 2011, the remaining balance available for future purchases was $574.1 million under the stock repurchase program.

In January 2011, we used $25.9 million in cash to repurchase a total of approximately 1.4 million shares at an average price of $18.55. In February 2011, we used $11.8 million in cash to repurchase 0.6 million shares at an average price of $20.87.

Yield Enhancement Program

On October 28, 2009, the Audit Committee approved a yield enhancement strategy intended to improve the yield on our available cash. As part of this program, the Audit Committee authorized us to enter into short-term yield enhanced structured agreements, typically with maturities of 90 days or less, correlated to our stock price. Under the agreements we entered into to date, we pay a fixed sum of cash upon execution of an agreement in exchange for the financial institution's obligations to pay either a pre-determined amount of cash or shares of our common stock depending on the closing market price of our common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our cash investment returned plus a yield substantially above the yield currently available for short-term cash investments. If the closing market price is at or below the pre-determined price, we will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on our stock price and does not require us to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

We entered into a yield enhanced structured agreement based upon a comparison of the yields available in the financial markets for similar maturities against the expected yield to be realized per the structured agreement and the related risks associated with this type of arrangement. We believe the risk associated with these types of agreements is no different than alternative investments available to us with equivalent counterparty credit ratings. All counterparties to a yield enhancement program have a credit rating of at least Aa2 or A as rated by major independent rating agencies. For all such agreements that matured to date, the yields of the structured agreements were far superior to the yields available in the financial markets primarily due to the volatility of our stock price and the pre-payment aspect of the agreements. The counterparty is willing to pay a premium over the yields available in the financial markets due to the structure of the agreement.

The following table summarizes the activity of our settled yield enhanced structured agreements:

Periods	Aggregate Price Paid	Total Proceeds Received Upon Maturity	Total Number of Shares Received Upon Maturity	Average Price Paid per Share
	(In thousands, except per-share amounts)			
Fiscal 2009	$ 68,017	$ 69,065	—	$ —
Fiscal 2010	207,882	217,489	10,000	11.49
Total	$ 275,899	$ 286,554	10,000	$ 11.49

In December 2010, we entered into a short-term yield enhanced structured agreement with a maturity of less than 45 days at an aggregate price of approximately $44.0 million. The agreement remained unsettled at January 2, 2011. On January 19, 2011, we settled this agreement and received approximately $47.0 million in cash.

On February 9, 2011 we entered into a short-term yield enhanced structured agreement with a maturity of less than 45 days at an aggregate price of approximately $52.5 million.

Line of Credit

In March 2010, we extended our line of credit with Silicon Valley Bank to March 2011 with a total available amount of $25.0 million. Loans made under the line of credit bear interest based upon the Wall Street Journal Prime Rate (3.25% as of January 2, 2011 and 3.25% as of January 3, 2010) or LIBOR plus 2.0% (2.30% as of January 2, 2011 and 1.75% as of January 3, 2010). The line of credit agreement includes a variety of covenants including restrictions on the incurrence of indebtedness, incurrence of loans, the payment of dividends or distribution on our capital stock, and transfers of assets and financial covenants with respect to an adjusted quick ratio and tangible net worth. As of January 2, 2011, we were in compliance with all of the financial covenants under the line of credit. Our obligations under the line of credit are guaranteed and collateralized by the common stock of certain of our business entities. We intend to use the line of credit on an as-needed basis to fund working capital and capital expenditures. To date, there have been no borrowings under the line of credit.

As of January 2, 2011, in conjunction with certain guarantees, we issued irrevocable standby letters of credit in the aggregate amount of $2.6 million to secure payments under an equipment lease. See "Lease Guarantees" under Note 19 for further discussion.

NOTE 16. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average common shares outstanding. Diluted net income per share is computed using the weighted-average common shares outstanding and any dilutive potential common shares. Diluted net loss per common share is computed using the weighted-average common shares outstanding and excludes all dilutive potential common shares when we are in a net loss position their inclusion would be anti-dilutive. Our dilutive securities primarily include stock options, restricted stock units, restricted stock awards, convertible debt and warrants.

The following table sets forth the computation of basic and diluted net income (loss) per share:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands, except per-share amounts)		
Net Income (Loss) per Share—Basic:			
Income (loss) from continuing operations	$ 75,742	$ (150,424)	$ (319,262)
Income from discontinued operations attributable to Cypress	—	—	34,386
Income from discontinued operations—noncontrolling interest, net of taxes	—	—	34,154
Noncontrolling interest, net of taxes	(866)	(946)	(311)
Net income (loss)	74,876	(151,370)	(251,033)
Less: net (income) loss attributable to noncontrolling interest	866	946	(33,843)
Net income (loss) attributable to Cypress for basic computation	$ 75,742	$ (150,424)	$ (284,876)
Weighted-average common shares for basic computation	161,114	145,611	150,447
Net income (loss) per share—basic:			
Continuing operations attributable to Cypress	$ 0.47	$ (1.03)	$ (2.12)
Discontinued operations attributable to Cypress	—	—	0.23
Net income (loss) per share—basic	$ 0.47	$ (1.03)	$ (1.89)
Net Income (Loss) per Share—Diluted:			
Income (loss) from continuing operations	$ 75,742	$ (150,424)	$ (319,262)
Income from discontinued operations attributable to Cypress	—	—	34,386
Income from discontinued operations—noncontrolling interest, net of taxes	—	—	34,154
Noncontrolling interest, net of income taxes	(866)	(946)	(311)
Net income (loss)	74,876	(151,370)	(251,033)
Less: net (income) loss attributable to noncontrolling interest	866	946	(33,843)
Net income (loss) attributable to Cypress for diluted computation	$ 75,742	$ (150,424)	$ (284,876)
Weighted-average common shares for basic computation	161,114	145,611	150,447
Effect of dilutive securities:			
Stock options, restricted stock units, restricted stock awards and other	30,263	—	—
Weighted-average common shares for diluted computation	191,377	145,611	150,447
Net income (loss) per share—diluted:			
Continuing operations attributable to Cypress	$ 0.40	$ (1.03)	$ (2.12)
Discontinued operations attributable to Cypress	—	—	0.23
Net income (loss) per share—diluted	$ 0.40	$ (1.03)	$ (1.89)

Convertible Debt and Warrants:

The 1.00% Notes were convertible debt which required us to settle the principal value of the debt in cash and any conversion premiums in either cash or stock, at our election. In connection with the issuance of the 1.00% Notes, we entered into a convertible note hedge transaction. In addition, we entered into a warrant transaction in which we sold to the option counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes. We apply the treasury stock method in determining the dilutive impact of both the 1.00% Notes and the warrants. In accordance with the relevant guidance, the convertible note hedge is excluded from the diluted earnings per share computation as it is anti-dilutive.

Anti-Dilutive Securities:

The following securities were excluded from the computation of diluted net income (loss) per share as their impact was anti-dilutive:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Stock options, restricted stock units and restricted stock awards	1,421	83,689	103,250
1.00% Notes	—	841	77,852
Warrants	—	948	77,852

NOTE 17. EMPLOYEE BENEFIT PLANS

Key Employee Bonus Plan

We have a key employee bonus plan, which provides for incentive payments to certain key employees including all executive officers except the Chief Executive Officer. Payments under the plan are determined based upon certain performance measures, including our actual earnings per share compared to the annual operating plan as well as achievement of strategic, operational and financial goals established for each key employee. We recorded total charges of $12.8 million under the plan in fiscal 2010, $7.3 million in fiscal 2009 and $6.2 million in fiscal 2008.

Performance Profit Sharing Plan

We have a performance profit sharing plan, which provides incentive payments to all our employees. Payments under the plan are determined based upon our earnings per share and the employees' percentage of success in achieving certain performance goals. We recorded total charges of $5.0 million under the plan in fiscal 2010, $4.9 million in fiscal 2009 and $5.2 million in fiscal 2008.

Performance Bonus Plan

In fiscal 2008, we established the performance bonus plan, which provides for incentive payments to executive officers and key employees who are recommended by our senior management and approved solely at the discretion of the Committee of the Board. Payments under the plan are determined based upon the attainment and certification of certain objective performance criteria established by the Committee. The sole participant in the performance bonus plan for fiscal 2010, 2009 and 2008 was our Chief Executive Officer. Under the plan, we recorded total charges of $1.1 million, $0.5 million and $0.6 million in fiscal 2010, 2009 and 2008, respectively.

Deferred Compensation Plan

We have a deferred compensation plan, which provides certain key employees, including our executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-free basis. We did not make contributions to the deferred compensation plan or guarantee returns on the investments. Participant deferrals and investment gains and losses remain our assets and are subject to claims of general creditors.

Under the deferred compensation plan the assets are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income. As of January 2, 2011 and January 3, 2010, the fair value of the assets was $30.5 million and $25.7 million, respectively, and the fair value of the liabilities was $30.0 million and $25.1 million, respectively.

All expense and income recorded under the deferred compensation plan were included in the following line items in the Consolidated Statements of Operations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Changes in fair value of assets recorded in:			
Other income (expense), net	$ 2,653	$ 5,150	$ (10,643)
Changes in fair value of liabilities recorded in:			
Cost of revenues	(370)	(516)	2,129
Research and development expenses	(959)	(1,454)	3,560
Selling, general and administrative expenses	(1,726)	(3,168)	5,437
Total income (expense), net	$ (402)	$ 12	$ 483

401(k) Plan

We sponsor a 401(k) plan which provides participating employees with an opportunity to accumulate funds for retirement. We do not make contributions to the 401(k) plan.

Pension Plans

We sponsor defined benefit pension plans covering employees in certain of our international locations. We do not have pension plans for our United States-based employees. Pension plan benefits are based primarily on participants' compensation and years of service credited as specified under the terms of each country's plan. The funding policy is consistent with the local requirements of each country.

As of January 2, 2011 and January 3, 2010, projected benefit obligations totaled $8.7 million and $4.7 million, respectively, and the fair value of plan assets was $4.2 million and $2.6 million, respectively.

NOTE 18. INCOME TAXES

The geographic distribution of income (loss) from continuing operations before income taxes and the components of income tax benefit (provision) are summarized below:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
United States income (loss)	$ (86,630)	$ (182,858)	$ (295,359)
Foreign income (loss)	180,796	38,288	(15,974)
Income (loss) from continuing operations before income taxes	94,166	(144,570)	(311,333)
Income tax benefit (provision):			
Current tax benefit (expense):			
Federal	(6,621)	(1,986)	(5,775)
State	30	(250)	(587)
Foreign	(5,245)	(3,618)	(2,564)
Total current tax expense	(11,836)	(5,854)	(8,926)
Deferred tax benefit:			
Foreign	(7,454)	—	997
Total deferred tax benefit (expense)	(7,454)	—	997
Income tax benefit (provision)	$ (19,290)	$ (5,854)	$ (7,929)

Income tax benefit (provision) differs from the amounts obtained by applying the statutory United States federal income tax rate to income (loss) before taxes as shown below:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
Benefit (provision) at U.S. statutory rate of 35%	$ (32,958)	$ 50,930	$ 108,967
Foreign income at other than U.S. rates	43,408	5,967	(27,617)
Future benefits not recognized	(30,167)	(61,474)	6,970
Non-deductible executive compensation	—	(1,181)	—
SunPower tax sharing agreement	—	(1,154)	—
State income taxes, net of federal benefit	30	(250)	(587)
Refundable tax credits	437	676	1,248
Alternative minimum tax	—	—	(23,677)
Recognition of prior-year benefits	—	—	85,820
Convertible bond interest	—	—	6,857
Non-deductible goodwill and bond tender losses	—	—	(185,071)
Reversal of previously accrued taxes	1,050	506	19,612
Other, net	(1,090)	126	(451)
Income tax benefit (provision)	$ (19,290)	$ (5,854)	$ (7,929)

The components of deferred tax assets and liabilities were as follows:

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
Deferred tax assets:		
Credits and net operating loss carryovers	$ 207,503	$ 140,812
Excess of book over tax depreciation	25,192	15,206
Reserves and accruals	73,494	79,242
Deferred income	18,413	9,108
Total deferred tax assets	324,602	244,368
Less valuation allowance	(320,844)	(239,946)
Deferred tax assets, net	3,758	4,422
Deferred tax liabilities:		
Intangible assets arising from acquisitions	(3,071)	(4,422)
Total deferred tax liabilities	(3,071)	(4,422)
Net deferred tax assets	$ 687	$ —

As of January 2, 2011, of the total deferred tax assets of $324.6 million, a valuation allowance of $320.8 million has been recorded for the portion which is not more likely than not to be realized. This is based on a jurisdictional assessment. As of January 3, 2010, deferred tax assets of $239.9 million were fully reserved due to uncertainty of realization in accordance with the accounting guidance, under which current and long-term net deferred taxes have been netted to the extent they are in the same tax jurisdiction.

At January 2, 2011, we had U.S. federal net operating loss carryovers of approximately $581.5 million, which, if not utilized, will expire from 2013 through 2030. Of the $581.5 million, $20.6 million is subject to Section 382 limitation. When recognized, $400.5 million of the tax benefit will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision. We had state net operating loss carryovers of approximately $181.8 million which, if not utilized, will expire from 2011 through 2020. A portion

of these net operating loss carryovers relate to recent acquisitions and are subject to certain limitations. We had U.S. federal tax credit carryforwards of approximately $110.5 million, which, if not utilized, will expire from 2018 through 2030, and state tax credit carryforwards of approximately $75.5 million, which currently do not have any expiration date. In addition, utilization of the net operating losses and tax credit carryovers may be limited if certain ownership changes occur subsequent to January 2, 2011.

We received tax deductions from the gains realized by employees on the exercise of certain non-qualified stock options for which the benefit is recognized as a component of stockholders' equity. Historically, we have evaluated the deferred tax assets relating to these stock option deductions along with its other deferred tax assets and concluded that a valuation allowance is not required for that portion of the total deferred tax assets that are considered more likely than not to be realized in future periods. To the extent that the deferred tax assets with a valuation allowance become realizable in future periods, we will have the ability, subject to carryforward limitations, to benefit from these amounts. When realized, the tax benefits of tax deductions related to stock options are accounted for as an increase to additional paid-in capital rather than a reduction of the income tax provision.

United States income taxes and foreign withholding taxes have not been provided on a cumulative total of $335.8 million and $184.2 million of undistributed earnings for certain non-United States subsidiaries as of January 2, 2011 and January 3, 2010, respectively, because such earnings are intended to be indefinitely reinvested in the operations and potential acquisitions of our international operations. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits). It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

Our global operations involve manufacturing, research and development, and selling activities. Our operations outside the U.S. are in certain countries that impose a statutory tax rate both higher and lower than the U.S. We are subject to tax holidays in the Philippines and India where we manufacture and design certain of our products. These tax holidays are scheduled to expire at varying times within the next one and four years. Our tax benefit of these tax holidays for the year ended January 2, 2011 was $1.4 million which had an insignificant impact on earnings per share. Overall, we expect our foreign earnings to be taxed at rates lower than the statutory tax rate in the U.S.

Unrecognized Tax Benefits

The following table is a reconciliation of unrecognized tax benefits:

(In thousands)	
Unrecognized tax benefits, as of December 30, 2007	$ 46,807
Decrease based on tax positions related to fiscal 2008	(14,251)
Decrease related to settlements with taxing authorities	(10,511)
Unrecognized tax benefits, as of December 28, 2008	22,045
Increase based on tax positions related to current year	17,775
Decrease related to settlements with taxing authorities	(506)
Unrecognized tax benefits, as of January 3, 2010	39,314
Increase based on tax positions related to current year	5,311
Increase based on tax positions related to prior years	3,059
Decrease related to lapsing of statutes of limitations	(861)
Unrecognized tax benefits, as of January 2, 2011	$ 46,823

As of January 2, 2011, January 3, 2010 and December 28, 2008, the amounts of unrecognized tax benefits that, if recognized, would affect our effective tax rate totaled $43.6 million, $37.2 million and $20.4 million, respectively.

Management believes events that could occur in the next 12 months and cause a material change in unrecognized tax benefits include, but are not limited to, the following:

- completion of examinations by the U.S. or foreign taxing authorities; and
- expiration of statue of limitations on our tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which we do business. We believe it is possible that we may recognize approximately $21 to $23 million of our existing unrecognized tax benefits within the next twelve months as a result of the lapse of statutes of limitations and the resolution of agreements with domestic and various foreign tax authorities.

Classification of Interest and Penalties

Our policy is to classify interest expense and penalties, if any, as components of income tax provision in the Consolidated Statements of Operations. As of January 2, 2011, January 3, 2010 and December 28, 2008, the amount of accrued interest and penalties totaled $10.1 million, $6.4 million and $4.4 million, respectively. We recorded interest and penalties of approximately $3.7 million and $2.1 million during fiscal 2010 and 2009, respectively. We recorded interest income of $0.2 million in fiscal 2008.

Examinations by Tax Authorities

The following table summarizes our major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of January 2, 2011:

Tax Jurisdictions	Tax Years
United States	2006 and onward
Philippines	2008 and onward
India	2005 and onward
California	2006 and onward

The IRS is currently conducting audits of our federal income tax returns for fiscal 2008, 2007 and 2006. As of January 2, 2011, no material adjustments to the tax liabilities have been proposed by the IRS. However, the IRS has not completed their examination and there can be no assurance that there will be no material adjustments upon completion of their review. In addition, non-U.S. tax authorities have completed their examination of our subsidiary in India for fiscal years 2007, 2006 and 2005. As of January 2, 2011, the proposed adjustments have been appealed. We believe the ultimate outcome of this appeal will not result in a material adjustment to the tax liability.

While years prior to 2006 for the U.S. corporate tax return are not open for assessment, the IRS can adjust net operating loss and research and development credit carryovers that were generated in prior years and carried forward to 2006 and subsequent years.

Spin-Off of SunPower

We have a tax sharing agreement with SunPower providing for each of the parties' obligations concerning various tax liabilities. The tax sharing agreement is structured such that we will pay all federal, state, local and foreign taxes that are calculated on a consolidated or combined basis (as defined under applicable federal, state or foreign law) reduced by SunPower's portion of such tax liability or benefit determined based upon its separate return tax liability as defined under the tax sharing agreement. Such liability or benefit will be based on a pro forma calculation as if SunPower were filing a separate income tax return in each jurisdiction, rather than on a combined or consolidated basis with us subject to adjustments as set forth in the tax sharing agreement.

In connection with the Spin-Off (see Note 3), Cypress and SunPower entered into an amendment to the existing tax sharing agreement between the parties to address certain transactions that may affect the tax treatment of the Spin-Off and certain other matters. Under the amended tax sharing agreement, SunPower agreed that it will not: (a) effect a Recapitalization during the 36 month period following the Spin-Off without first obtaining a tax opinion to the effect that such Recapitalization (either alone or when taken together with any other transaction or transactions) will not cause the Spin-Off to become taxable under Section 355(e), or (b) seek any private ruling, including any supplemental private ruling, from the IRS with regard to the Spin-Off, or any transaction having any bearing on the tax treatment of the Spin-Off, without our prior written consent.

NOTE 19. COMMITMENTS AND CONTINGENCIES

Lease Guarantees

During fiscal 2005, we entered into a strategic foundry partnership with Grace Semiconductor Manufacturing Corporation ("Grace"), pursuant to which we have transferred certain of our proprietary process technologies to Grace's Shanghai, China facility. In accordance with a foundry agreement executed in fiscal 2006, we purchase wafers from Grace that are produced using these process technologies.

Pursuant to a master lease agreement, Grace has leased certain semiconductor manufacturing equipment from a financing company. In conjunction with the master lease agreement, we have entered into a series of guarantees with the financing company for the benefit of Grace. As of January 2, 2011, we updated our assessment of the likelihood that we would have to settle the outstanding lease payments under the guarantees and we determined that it was not probable. As a result, we have not recorded any liability relating to outstanding lease payments under the guarantees.

Pursuant to the guarantees, we issued irrevocable letters of credit to secure the rental payments under the guarantees in the event a demand is made by the financing company on us. The amount available under the letters of credit will decline according to schedules mutually agreed upon by us and the financing company. If we default, the financing company will be entitled to draw on the letters of credit. In connection with the guarantees, we were granted options to purchase 40.3 million ordinary shares of Grace. As of January 2, 2011, we determined that the fair value of the guarantees and the options was not material to our condensed consolidated financial statements.

As of January 2, 2011, under the guarantees, Grace had no outstanding rental payments and the outstanding irrevocable letters of credit totaled $2.6 million. During the fourth quarter of fiscal 2010, we advanced $2.5 million in pre-payments to Grace to secure a certain supply of wafers. In February 2011, we advanced an additional $1.0 million in pre-payments. These payments will be applied against future purchases of inventory from Grace over the next two years.

Indemnification Obligations

We are a party to a variety of agreements pursuant to which we may be obligated to indemnify another party to such agreements with respect to certain matters. Typically, these obligations arise in the context of contracts we have entered into, under which we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants or terms and conditions related to such matters as the sale and/or delivery of our products, title to assets sold, certain intellectual property claims, defective products, specified environmental matters and certain income taxes. In these circumstances, payment by us is customarily conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims and vigorously defend ourselves and the third party against such claims. Further, our obligations under these agreements may be limited in terms of time, amount or the scope of our responsibility and in some instances, we may have recourse against third parties for certain payments made under these agreements.

It is not possible to predict the maximum potential amount of future payments under these agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments we have made under these agreements have not had a material effect on our

business, financial condition or results of operations. We believe that if we were to incur a loss in any of these matters, such loss would not have a material effect on our business, financial condition, cash flows or results of operations, although there can be no assurance of this.

Product Warranties

We generally warrant our products against defects in materials and workmanship for a period of one year and that product warranty is generally limited to a refund of the original purchase price of the product or a replacement part. We estimate our warranty costs based on historical warranty claim experience. Warranty returns are recorded as an allowance for sales returns. The allowance for sales returns is reviewed quarterly to verify that it properly reflects the remaining obligations based on the anticipated returns over the balance of the obligation period.

The following table presents our warranty reserve activities:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Beginning balance	$ 3,151	$ 3,341	$ 3,074
Settlements made	(5,345)	(9,015)	(7,759)
Provisions	5,541	8,825	8,026
Ending balance	$ 3,347	$ 3,151	$ 3,341

Operating Lease Commitments

We lease certain facilities and equipment under non-cancelable operating lease agreements that expire at various dates through fiscal 2018. Some leases include renewal options, which would permit extensions of the expiration dates at rates approximating fair market rental values.

As of January 2, 2011, future minimum lease payments under non-cancelable operating leases were as follows:

(In thousands)	
2011	$ 8,094
2012	6,593
2013	4,600
2014	3,627
2015	956
2016 and Thereafter	629
Total	$ 24,499

Rental expenses totaled approximately $7.2 million, $6.6 million and $8.2 million in fiscal 2010, 2009 and 2008, respectively.

Litigation and Asserted Claims

In October 2006, we received a subpoena related to the Antitrust Division of the Department of Justice ("DOJ")'s investigation into the SRAM market. In December 2008, the DOJ closed its two year investigation without any charge or allegation brought against us. As a result of the DOJ's investigation, in October 2006, we, along with a majority of the other SRAM manufacturers, were named in numerous consumer class action suits that are now consolidated in the U.S. District Court for the Northern District of California. The direct and indirect purchaser classes were certified. We aggressively defended ourselves in this matter, and as a result, we

were able to reach favorable resolutions with both the direct and indirect purchaser classes for a total settlement of $7.3 million, of which $6.3 million was recorded as an offset to revenue. We are also named in purported consumer antitrust class action suits in three provinces of Canada; however, those cases have not been materially active over the last two years.

On August 21, 2009, X-Point Technologies filed a single patent infringement case against us and 29 other defendants in the U.S. District Court in Delaware. The patent at issue covers X-Point's technology for data transfer between storage devices and network devices without the use of a CPU or memory. The parties are currently engaged in discovery. X-Point has made no specific demand for relief in this matter. We believe we have meritorious defenses to the allegations set forth in the complaint and will vigorously defend ourselves in this matter.

On January 21, 2011, Avago Technologies filed a patent infringement case against us in the U.S. District Court in Delaware. The three patents at issue cover Avago's touch technology, including finger navigation. Avago has made no specific demand for relief in this matter. We believe we have meritorious defenses to the allegations set forth in the complaint and will vigorously defend ourselves in this matter.

We are currently a party to various other legal proceedings, claims, disputes and litigation arising in the ordinary course of business. Based on the our own investigations, we believe the ultimate outcome of our current legal proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of the litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

NOTE 20. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

We design, develop, manufacture and market a broad range of programmable system solutions for various markets including consumer, computation, data communications, automotive and industrial. We evaluate our reportable business segments in accordance with the accounting guidance. We operate in the following four reportable business segments:

Reportable Segments	Description
Consumer and Computation Division	A product division focusing on PSoC, touch-sensing and touchscreen solutions, USB and timing solutions.
Data Communications Division	A product division focusing on data communication devices for wireless handset and professional video systems.
Memory and Imaging Division	A product division focusing on static random access memories, nonvolatile memories and image sensor products.
Emerging Technologies and Other	Includes Cypress Envirosystems and AgigA Tech, Inc., both majority-owned subsidiaries of Cypress, the Optical Navigation Systems ("ONS") business unit, China business unit, foundry-related services, development stage activities and certain corporate expenses.

The following tables set forth certain information relating to the reportable business segments:

Revenues:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Consumer and Computation Division	$ 343,226	$ 274,861	$ 315,718
Data Communications Division	110,647	96,568	129,930
Memory and Imaging Division	405,844	288,246	312,410
Emerging Technologies and Other	17,815	8,111	7,658
Total revenues	$ 877,532	$ 667,786	$ 765,716

Income (Loss) from Continuing Operations before Income Taxes:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Consumer and Computation Division	$ 43,195	$ (674)	$ (2,471)
Data Communications Division	38,687	13,314	27,248
Memory and Imaging Division	139,036	31,872	30,857
Emerging Technologies and Other	(25,907)	(24,863)	(21,284)
Unallocated items:			
Stock-based compensation expense	(91,459)	(141,812)	(122,345)
Amortization of intangibles and other acquisition-related costs	(3,028)	(3,804)	(9,199)
Restructuring charges	(2,975)	(15,242)	(21,643)
Impairment of assets	(4,927)	—	—
Gain on divestitures	—	—	9,966
Write off of debt issuance costs	—	—	(4,800)
Gain on sale of SunPower common stock	—	—	192,048
Gain on debt redemption	—	—	2,193
Impairment of goodwill	—	—	(351,257)
Interest and non-cash expense for convertible debt	—	(1,090)	(25,213)
Impairment of investments	—	(2,549)	(13,355)
Other	2,410	278	(2,078)
Income (loss) from continuing operations before income taxes	$ 95,032	$(144,570)	$(311,333)

Depreciation:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
		(In thousands)	
Consumer and Computation Division	$ 18,428	$ 20,912	$ 27,408
Data Communications Division	6,140	7,309	11,186
Memory and Imaging Division	22,228	21,875	27,080
Emerging Technologies and Other	1,063	599	741
Total depreciation	$ 47,859	$ 50,695	$ 66,415

Geographical Information

The following table presents our total revenues by geographical locations:

	Year Ended		
	January 2, 2011	January 3, 2010	December 28, 2008
	(In thousands)		
United States	$ 142,239	$ 113,009	$ 163,542
Europe	134,117	79,864	114,922
Asia:			
China	197,337	162,664	188,658
Hong Kong	77,820	66,367	42,812
Taiwan	70,259	63,900	49,824
Rest of world	255,760	181,982	205,958
Total revenues	$ 877,532	$ 667,786	$ 765,716

Property, plant and equipment, net, by geographic locations were as follows:

	As of	
	January 2, 2011	January 3, 2010
	(In thousands)	
United States	$ 185,149	$ 207,529
Philippines	62,830	57,302
Other	12,143	7,789
Total property, plant and equipment, net	$ 260,122	$ 272,620

Customer Information

One global distributor, Avnet, Inc., accounted for 17% of consolidated accounts receivable as of January 2, 2011. One global distributor, Avnet, Inc., accounted for 16% and one contract manufacturer of an OEM, Flextronics, accounted for 11% of consolidated accounts receivable as of January 3, 2010. One global distributor, Avnet, Inc., accounted for 13% of consolidated accounts receivable as of December 28, 2008.

Two global distributors, Avnet, Inc. and Arrow Electronics, Inc., accounted for 15% and 10%, respectively, of our total revenues for fiscal 2010. One global distributor, Avnet, Inc., accounted for 14% of our total revenues for fiscal 2009. Two global distributors, Avnet, Inc. and Arrow Electronics, Inc., accounted for 13% and 11%, respectively, of our total revenues for fiscal 2008. There was no single end customer in fiscal 2010, 2009 or 2008 that accounted for more than 10% of total revenue.

NOTE 21. SUBSEQUENT EVENTS

On January 27, 2011, we signed a definitive agreement for ON Semiconductor Corporation to acquire our Image Sensor business in an all cash transaction for approximately $31.4 million. The transaction is expected to close by the end of the first quarter of fiscal 2011, subject to customary closing conditions. Dan McCranie, a member of the board of directors of Cypress, is the chairman of the board of directors at ON Semiconductor Corporation.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cypress Semiconductor Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Cypress Semiconductor Corporation and its subsidiaries (the "Company") at January 2, 2011 and January 3, 2010 and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 of Notes to Consolidated Financial Statements, the Company changed the manner in which it accounts for convertible debt instruments in fiscal 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 25, 2011

UNAUDITED QUARTERLY FINANCIAL DATA

	Three Months Ended			
	January 2, 2011	October 3, 2010	July 4, 2010	April 4, 2010
	(In thousands, except per-share amounts)			
Revenues	$ 220,314	$ 231,923	$ 223,024	$ 202,271
Gross margin	$ 123,058	$ 134,682	$ 124,946	$ 106,487
Net income	$ 8,678	$ 34,228	$ 19,459	$ 12,511
Less: net loss attributable to noncontrolling interest	375	145	183	163
Net income attributable to Cypress	$ 9,053	$ 34,373	$ 19,642	$ 12,674
Net income per share–basic	$ 0.05	$ 0.22	$ 0.12	$ 0.08
Net income per share–diluted	$ 0.05	$ 0.18	$ 0.10	$ 0.07

	Three Months Ended			
	January 3, 2010	September 27, 2009	June 28, 2009	March 29, 2009
	(In thousands, except per-share amounts)			
Revenues	$ 193,974	$ 178,719	$ 155,784	$ 139,309
Gross margin	$ 94,920	$ 84,535	$ 57,112	$ 34,015
Income (loss) from continuing operations	$ 2,852	$ (19,656)	$ (45,285)	$ (88,335)
Income from discontinued operations and noncontrolling interest, net of taxes	(383)	(178)	(178)	(207)
Net income (loss)	2,469	(19,834)	(45,463)	(88,542)
Less: net loss attributable to noncontrolling interest	383	178	178	207
Net income (loss) attributable to Cypress	$ 2,852	$ (19,656)	$ (45,285)	$ (88,335)
Net income (loss) per share–basic	$ 0.02	$ (0.13)	$ (0.32)	$ (0.66)
Net income (loss) per share–diluted	$ 0.02	$ (0.13)	$ (0.32)	$ (0.66)

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not

absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of January 2, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework*. Based on our assessment using those criteria, our management (including our Chief Executive Officer and Chief Financial Officer) concluded that our internal control over financial reporting was effective as of January 2, 2011.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on our internal control over financial reporting. The report on the audit of internal control over financial reporting appears on page 107 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

In the fourth quarter of fiscal 2010, we implemented certain information technology projects such as Trade management and migrated our primary general ledger software applications to an outside vendor. We determined that these changes in our internal controls over financial reporting did not materially affect, or were reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K. We will file a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning our directors is incorporated by reference from the information set forth in the sections titled "Proposal One—Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

The information required by this item concerning our executive officers is incorporated by reference from the information set forth in the sections titled "Executive Officers" under Item 1 of this Annual Report on Form 10-K and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

The information required by this item concerning our audit committee and its financial expert is incorporated by reference from the information set forth in the section titled "Board Structure and Compensation" in our Proxy Statement.

We have adopted a code of ethics that applies to all of our directors, officers and employees. We have made the code of ethics available, free of charge, on our website at *www.cypress.com.*

The information required by this item concerning recommendations of director nominees by security holders is incorporated by reference from the information set forth in the section titled "Board Structure and Compensation" in our Proxy Statement. There have been no changes to the procedures by which security holders may recommend nominees to our Board of Directors in fiscal 2010.

On June 4, 2008, we submitted our 303A Annual Chief Executive Officer Certification to the New York Stock Exchange.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item concerning executive compensation is incorporated by reference from the information set forth in the section titled "Executive Compensation" in our Proxy Statement.

The information required by this item concerning compensation of directors is incorporated by reference from the information set forth in the section titled "Board Structure and Compensation" in our Proxy Statement.

The information required by this item concerning our compensation committee is incorporated by reference from the information set forth in the sections titled "Compensation Committee Interlocks and Insider Participation" and "Report of the Compensation Committee of the Board of Directors" in our Proxy Statement.

Quarterly Executive Incentive Payments

On February 24, 2011, Cypress's Compensation Committee of the Board of Directors (the "Compensation Committee") approved the incentive payments to our executive officers for the fourth quarter and annual portion of fiscal 2010 performance incentive plans. These payments were earned in accordance with the terms of our Key Employee Bonus Plan (the "KEBP") and the Performance Bonus Plan (the "PBP").

The payments were determined based upon the financial performance of Cypress and each executive's performance. The performance measures under the KEBP include our non-GAAP profit-before-taxes percentage as well as individual strategic, operational and financial goals established for each executive. The following table sets forth the cash payments to our Named Executive Officers (as determined in our Proxy Statement filed with the Securities and Exchange Commission on March 31, 2010) under the KEBP and the PBP in the fourth quarter of fiscal 2010:

Named Executive Officers	KEBP	PBP
T.J. Rodgers, President and Chief Executive Officer	—	$339,779
Christopher Seams, Executive Vice President, Sales, Marketing and Operations	$ 98,155	—
Brad W. Buss, Executive Vice President, Finance & Administration and Chief Financial Officer	$110,646	—
Paul Keswick, Executive Vice President, New Product Development	$104,461	—
Norman Taffe, Executive Vice President, Consumer and Computation Division	$ 76,139	—

Additionally, the Compensation Committee authorized quarterly and annual incentive payments under the KEBP, totaling $462,485, to six other senior executive officers who are not Named Executives.

Release of 2010 PARS

In 2007, the Compensation Committee (the "Committee") of the Company's Board of Directors granted, under the Company's 1994 Stock Plan, performance-based restricted stock units ("PARS") to certain employees of the Company, including our Named Executive Officers. The PARS awarded in 2007 may be earned ratably over five years subject to performance milestones that are determined on at least a yearly basis.

On February 24, 2011, the Committee approved the performance milestone achievements for fiscal 2010. In connection with the Committee's determination of the achievement of fiscal 2010 PARS performance milestones, the following shares, prior to tax payments, were released to our Named Executive Officers:

Named Executive Officer	Target	Earned
T.J. Rodgers, President and Chief Executive Officer	659,235	654,983
Brad W. Buss, Executive Vice President, Finance and Administration and Chief Financial Officer	412,022	409,364
Christopher Seams, Executive Vice President, Sales and Marketing	329,618	327,492
Paul Keswick, Executive Vice President, New Product Development	329,618	327,492
Norman P. Taffe, Executive Vice President, Consumer and Computation Division	283,265	281,438

Setting of Performance Milestones of 2011 PARS

On February 24, 2011, the Committee of the Board established the milestones for the outstanding performance-based awards for fiscal 2011. These performance based milestones include the achievement of certain performance results of our common stock appreciation target against the SOXX, certain levels of annual non-GAAP profit-before-taxes percentage, certain annual revenue growth and certain annual revenue growth in the PSoC® family. These awards are earned upon the Committee's certification that the specified market and/or performance milestones have been achieved. If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods. The fair value of the market-condition milestone will be determined using a Monte Carlo valuation. The fair value of the shares with performance-related milestones will be the grant-date fair value of our common stock.

The following table sets forth our Named Executive Officers' target shares for the performance period subject to performance:

Named Executive Officer	Minimum	Target
T.J. Rodgers, President and Chief Executive Officer	0	659,235
Brad W. Buss, Executive Vice President, Finance and Administration and Chief Financial Officer	0	412,022
Christopher Seams, Executive Vice President, Sales and Marketing	0	329,618
Paul Keswick, Executive Vice President, New Product Development	0	329,618
Norman P. Taffe, Executive Vice President, Consumer and Computation Division	0	283,265

The target number of shares is the maximum that may be earned for the performance period.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners, directors and executive officers is incorporated by reference from the information set forth in the section titled "Security Ownership of Certain Beneficial Owners and Management" in our Proxy Statement.

The information required by this item regarding our equity compensation plans is incorporated by reference from Item 5 of this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item regarding transactions with certain persons is incorporated by reference from the information set forth in the section titled "Certain Relationships and Related Transactions" in our Proxy Statement.

The information required by this item regarding director independence is incorporated by reference from the information set forth in the section titled "Board Structure and Compensation" in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding fees and services is incorporated by reference from the information set forth in the section titled "Proposal Two—Ratification of the Selection of Independent Registered Public Accounting Firm" in our Proxy Statement.

The information required by this item regarding the audit committee's pre-approval policies and procedures is incorporated by reference from the information set forth in the section titled "Report of the Audit Committee of the Board of Directors" in our Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements:

	Page
Consolidated Balance Sheets	61
Consolidated Statements of Operations	62
Consolidated Statements of Stockholders' Equity	63
Consolidated Statements of Cash Flows	65
Notes to Consolidated Financial Statements	67

2. Financial Statement Schedule:

	Page
Schedule II—Valuation and Qualifying Accounts	117

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or Notes to Consolidated Financial Statements under Item 8.

3. Exhibits:

Exhibit Number	Exhibit Description	Incorporated by References		Filed Herewith
		Form	Filing Date/ Period End Date	
2.1	Agreement and Plan of Reorganization dated as of January 16, 2001 by and among Cypress Semiconductor Corporation, Clock Acquisition Corporation, International Microcircuits, Inc. and with respect to Article VII, U.S. Bank Trust, N.A., as Escrow Agent, and Kurt R. Jaggers, as Securityholder Agent.	10-Q	4/1/2001	
2.2	Agreement and Plan of Reorganization dated as of January 26, 2001 by and among Cypress Semiconductor Corporation, Hilo Acquisition Corporation, HiB and Semiconductors, Inc., certain shareholder parties thereto, and U.S. Bank Trust, National Association, as Escrow Agent.	10-Q	4/1/2001	
2.3	Stock Purchase Agreement dated as of May 29, 2001 by and among Cypress Semiconductor Corporation, ScanLogic Holding Company, ScanLogic Corporation, certain shareholder parties thereto, and with respect to Article VII, U.S. Bank Trust, N.A., as Escrow Agent, and Israel Zilberman, as Securityholder Agent.	10-Q	7/1/2001	
2.4	Agreement and Plan of Reorganization dated as of June 2, 2001 by and among Cypress Semiconductor Corporation, Lion Acquisition Corporation, Lara Networks, Inc., U.S. Bank Trust National Association, as Escrow Agent (with respect to Article VII only), and Kenneth P. Lawler, as Securityholder Agent (with respect to Articles I and VII only).	10-Q	9/30/2001	
2.5	First Amendment to Agreement and Plan of Reorganization dated as of July 3, 2001 by and among Cypress Semiconductor Corporation, Lion Acquisition Corporation, Lara Networks, Inc., U.S. Bank Trust, N.A., as Escrow Agent, and Kenneth P. Lawler, as Securityholder Agent.	10-Q	9/30/2001	
2.6	Agreement and Plan of Reorganization dated as of August 19, 2001 by and among Cypress Semiconductor Corporation, In-System Design, Inc., and with respect to Article VII, U.S. Bank Trust, N.A., as Escrow Agent, and Lynn Watson, as Securityholder Agent.	10-Q	9/30/2001	
2.7	First Amendment to Agreement and Plan of Reorganization dated as of September 10, 2001 by and among Cypress Semiconductor Corporation, Idaho Acquisition Corporation, In-System Design, Inc., U.S. Bank Trust, N.A., as Escrow Agent, and Lynn Watson, as Securityholder Agent.	10-Q	9/30/2001	
2.8	Agreement and Plan of Reorganization dated as of November 17, 2001 by and among Cypress Semiconductor Corporation, Steelers Acquisition Corporation, Silicon Packets, Inc., and with respect to Article VII only, U.S. Bank Trust, N.A., as Escrow Agent, and Robert C. Marshall, as Securityholder Agent.	10-K	12/30/2001	

Exhibit Number	Exhibit Description	Incorporated by References		Filed Herewith
		Form	Filing Date/ Period End Date	
2.9	Stock Purchase Agreement dated as of June 21, 2004 by and among Cypress Semiconductor Corporation, in the name and on behalf of Cypress Semiconductor (Belgium) BVBA in Formation, FillFactory NV, certain stockholders of FillFactory NV and with respect to Article VIII and Article X only, U.S. Bank, National Association, as Escrow Agent, and Luc De Mey and IT-Partners NV, as Stockholder Agents.	8-K	8/13/2004	
2.10	Agreement and Plan of Reorganization dated as of June 30, 2004 by and among Cypress Semiconductor Corporation, SP Acquisition Corporation and SunPower Corporation.	10-K	1/2/2005	
2.11	Agreement and Plan of Merger dated as of February 11, 2005 by and among Cypress Semiconductor Corporation, SMaL Camera Technologies, Inc., Summer Acquisition Corporation, and with respect to Articles VII and IX only, U.S. Bank, National Association, as Escrow Agent, and Allan Thygesen, as Securityholder Agent.	8-K	2/15/2005	
2.12	Agreement and Plan of Merger dated November 7, 2005 by and between Cypress Semiconductor Corporation, CMS Acquisition Corporation and Cypress Microsystems, Inc.	8-K	12/8/2005	
2.13	Agreement for the Purchase and Sale of Assets and Amendment No. 1 dated as of February 15, 2006 by and between Cypress Semiconductor Corporation and NetLogic Microsystems, Inc.	8-K	2/21/2006	
2.14	Asset Purchase Agreement, dated February 27, 2007, by and between Sensata Technologies, Inc. and Cypress Semiconductor Corporation.	8-K	3/20/2007	
2.15	Agreement for the Purchase and Sale of Assets, dated August 29, 2007, by and between NetLogic Microsystems, Inc. and Cypress Semiconductor Corporation.	8-K	9/5/2007	
2.16	Agreement and Plan of Merger, dated as of August 1, 2008, by and among Cypress Semiconductor Corporation, Copper Acquisition Corporation and Simtek Corporation.	8-K	8/1/2008	
3.1	Second Restated Certificate of Incorporation of Cypress Semiconductor Corporation.	10-K	12/31/2000	
3.2	Bylaws, as Amended, of Cypress Semiconductor Corporation.	10-K	12/29/2002	
3.3	Restated Bylaws of Cypress Semiconductor Corporation.	10-Q	4/3/2005	
3.4	Amended and Restated Bylaws of Cypress Semiconductor Corporation.	8-K	6/23/2005	
3.5	Amended and Restated Bylaws of Cypress Semiconductor Corporation.	10-Q	7/3/2005	
3.6	Amended and Restated Bylaws of Cypress Semiconductor Corporation.	8-K	3/31/2006	
4.1	Subordinated Indenture dated as of January 15, 2000 between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee.	8-K	3/17/2000	
4.2	Supplemental Trust Indenture dated as of June 15, 2000 between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee.	8-K	7/11/2000	
4.3	Indenture dated as of June 3, 2003 between Cypress Semiconductor Corporation and U.S. Bank National Association, as Trustee.	S-3	6/30/2003	
4.4	Indenture dated as of March 13, 2007 between Cypress Semiconductor Corporation and U.S. Bank National Association, as Trustee.	S-3	5/17/2007	
4.5	Registration Rights Agreement—1.00% Convertible Senior Notes due September 15, 2009.	10-Q	7/1/2007	
10.1	Form of Indemnification Agreement.	S-1	3/4/1987	
10.2	Cypress Semiconductor Corporation 1994 Stock Option Plan.	10-K	1/2/2000	
10.3	Cypress Semiconductor Corporation Employee Qualified Stock Purchase Plan, Amended and Restated Effective as of May 15, 1998.	S-8	12/10/1998	
10.4	Cypress Semiconductor Corporation 1998 Key Employee Bonus Plan.	10-K	1/3/1999	
10.5	Cypress Semiconductor Corporation 1999 Non-statutory Stock Option Plan.	S-8	4/20/1999	
10.6	Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan I.	S-8	9/6/2002	
10.7	Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan II.	S-8	9/6/2002	
10.8	Amendment to 1999 Nonstatutory Stock Option Plan.	10-Q	6/29/2003	
10.9	Lease Agreement dated as of June 27, 2003 between Wachovia Development Corporation and Cypress Semiconductor Corporation.	10-Q	6/29/2003	
10.10	Participation Agreement dated as of June 27, 2003 by and among Cypress Semiconductor Corporation, Wachovia Development Corporation and Wachovia Bank, National Association.	10-Q	6/29/2003	
10.11	Call Spread Option Confirmation dated May 29, 2003 among Cypress Semiconductor Corporation, Credit Suisse First Boston International, and Credit Suisse First Boston.	10-Q	6/29/2003	
10.12	Loan and Security Agreement dated as of September 25, 2003 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-Q	9/28/2003	
10.13	Amended and Restated Call Spread Option Confirmation dated as of May 11, 2004 among Cypress Semiconductor Corporation, Credit Suisse First Boston International, and Credit Suisse First Boston.	10-Q	6/27/2004	

Exhibit Number	Exhibit Description	Incorporated by References		Filed Herewith
		Form	Filing Date/ Period End Date	
10.14	Amendment No. 1 to Loan and Security Agreement dated as of December 13, 2004 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	1/2/2005	
10.15	Cypress Semiconductor Corporation Employee Qualified Stock Purchase Plan, Amended and Restated Effective as of the Offering Period Commencing December 31, 2004	10-K	1/2/2005	
10.16	SMaL Camera Technologies, Inc. 2000 Stock Option and Incentive Plan.	S-8	3/8/2005	
10.17	First Amendment to Certain Operative Agreements dated March 28, 2005 between Wachovia Development Corporation and Cypress Semiconductor Corporation.	10-Q	4/3/2005	
10.18	Cypress Semiconductor Corporation 2006 Key Employee Bonus Plan (KEBP) Summary.	10-K	1/1/2006	
10.19	Cypress Semiconductor Corporation Performance Profit Sharing Plan (PPSP) Summary.	10-K	1/1/2006	
10.20*	Memorandum of Agreement between GNPower Ltd. Co. and Cypress Manufacturing Ltd.	10-Q	10/1/2006	
10.21	Letter of Agreement between Cypress Semiconductor Corporation and SunPower Corporation.	8-K	11/16/2006	
10.22	Letter of Agreement between Cypress Semiconductor Corporation and PowerLight Corporation.	8-K	11/16/2006	
10.23	Amended Letter of Agreement between Cypress Semiconductor Corporation and PowerLight Corporation.	8-K	1/5/2007	
10.24	Amendment No. 2 to Loan and Security Agreement dated as of December 11, 2006 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.25	Amendment No. 3 to Loan and Security Agreement dated as of December 21, 2006 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.26	Guaranty dated December 12, 2006 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.27	Guaranty dated February 1, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.28	Cypress Semiconductor Corporation 1994 Stock Plan, as amended and restated on May 3, 2007.	8-K	5/7/2007	
10.29	Consent and Amendment No. 4 to Loan and Security Agreement dated March 5, 2007 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-Q	4/1/2007	
10.30	Guaranty dated March 19, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	4/1/2007	
10.31	Guaranty dated May 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	7/1/2007	
10.32	Guaranty dated June 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	7/1/2007	
10.33	Cypress Semiconductor Corporation 1994 Stock Plan, as amended and restated on May 11, 2007.	10-Q	7/1/2007	
10.34	Guaranty dated December 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/30/2007	
10.35	Amendment No. 5 to Loan and Security Agreement dated December 20, 2007 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	12/30/2007	
10.36	Guaranty, dated March 24, 2008, by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	3/30/2008	
10.37	Form of Transaction Support Agreement by and among Cypress Semiconductor Corporation, Copper Acquisition Corporation and the individuals listed on the signatures pages thereto, dated as of August 1, 2008.	8-K	8/1/2008	
10.38	Amendment No. 1 to Tax Sharing Agreement, dated as of August 12, 2008, by and between Cypress Semiconductor Corporation and SunPower Corporation.	8-K	8/11/2008	
10.39	1994 Stock Plan, as amended and restated.	S-8	10/24/2008	
10.40	1999 Non-Statutory Stock Option Plan, as amended and restated.	S-8	10/24/2008	
10.41	Employee Qualified Stock Purchase Plan, as amended and restated.	S-8	10/24/2008	
10.42	International Microcircuits Inc. 2000 Nonstatutory Stock Option Plan.	S-8	10/24/2008	
10.43	Amendment No. 6 to Loan and Security Agreement dated December 18, 2008 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	8-K	12/17/2008	
10.44	Amended and Restated Loan and Security Agreement with Silicon Valley Bank dated March 1, 2010.	10-K	3/3/2010	
21.1	Subsidiaries of Cypress Semiconductor Corporation.	10-K	2/25/2011	X
23.1	Consent of Independent Registered Public Accounting Firm.	10-K	2/25/2011	X
24.1	Power of Attorney (reference is made to page 118 of this Annual Report on Form 10-K).	10-K	2/25/2011	X

Exhibit Number	Exhibit Description	Incorporated by References		Filed Herewith
		Form	Filing Date/ Period End Date	
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	10-K	2/25/2011	X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	10-K	2/25/2011	X
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	10-K	2/25/2011	X
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	10-K	2/25/2011	X
101.INS*	XBRL Instance Document.			
101.SCH*	XBRL Taxonomy Extension Schema Document.			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.			

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charges (Releases) to Expenses/Revenues	Deductions	Balance at End of Period
		(In thousands)		
Allowance for doubtful accounts receivable:				
Year ended January 2, 2011	$ 1,358	$ 60	$ (615)	$ 803
Year ended January 3, 2010	$ 777	$ 1,120	$ (539)	$ 1,358
Year ended December 28, 2008	$ 1,171	$ 358	$ (752)	$ 777
Allowance for sales returns:				
Year ended January 2, 2011	$ 3,151	$ 5,541	$ (5,345)	$ 3,347
Year ended January 3, 2010	$ 3,341	$ 8,825	$ (9,015)	$ 3,151
Year ended December 28, 2008	$ 3,074	$ 8,026	$ (7,759)	$ 3,341
Allowance for uncollectible loans under the stock purchase assistance plan:				
Year ended January 2, 2011	$ 109	$ (75)	$ (19)	$ 15
Year ended January 3, 2010	$ 538	$ (378)	$ (51)	$ 109
Year ended December 28, 2008	$ 782	$ (198)	$ (46)	$ 538

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

CYPRESS SEMICONDUCTOR CORPORATION

Dated: February 25, 2011

By: /s/ BRAD W. BUSS

Brad W. Buss
Executive Vice President, Finance and Administration and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints T.J. Rodgers and Brad W. Buss, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ T. J. RODGERS **T. J. Rodgers**	President, Chief Executive Officer and Director (Principal Executive Officer)	February 25, 2011
/s/ BRAD W. BUSS **Brad W. Buss**	Executive Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	February 25, 2011
/s/ W. STEVE ALBRECHT **W. Steve Albrecht**	Director	February 25, 2011
/s/ ERIC A. BENHAMOU **Eric A. Benhamou**	Director	February 25, 2011
/s/ LLOYD A. CARNEY **Lloyd A. Carney**	Director	February 25, 2011
/s/ JAMES R. LONG **James R. Long**	Director	February 25, 2011
/s/ J. DANIEL MCCRANIE **J. Daniel McCranie**	Director	February 25, 2011
/s/ J.D. SHERMAN **J.D. Sherman**	Director	February 25, 2011
/s/ EVERT P. VAN DE VEN **Evert P. van de Ven**	Director	February 25, 2011

Exhibit 21.1

SUBSIDIARIES OF CYPRESS SEMICONDUCTOR CORPORATION

Name	Jurisdiction of Incorporation
AgigA Tech, Inc.	United States Of America
AgigA Tech (Mauritius) LLC Mauritius	United States Of America
Cypress Semiconductor Corporation	United States Of America
CY Holding One LLC	United States Of America
CY Holding Two LLC	United States Of America
Cyland Corporation	Philippines
Cypress Manufacturing, Ltd.	Cayman Islands
Cypress Semiconductor (Luxembourg) Sarl	Luxembourg
Cypress Semiconductor (Mauritius) LLC	Mauritius
Cypress Semiconductor (Minnesota) Inc.	United States Of America
Cypress Semiconductor (Scandinavia) AB	Sweden
Cypress Semiconductor (Switzerland) Sarl	Switzerland
Cypress Semiconductor (Texas) Inc.	United States Of America
Cypress Semiconductor (Thailand) Co., Ltd.	Thailand
Cypress Semiconductor (UK) Limited	United Kingdom
Cypress Semiconductor Canada	Canada
Cypress Semiconductor Corporation (Belgium)	Belgium
Cypress Semiconductor GmbH	Germany
Cypress Semiconductor Holding One LLC	United States Of America
Cypress Semiconductor Holding Two LLC	United States Of America
Cypress Semiconductor International (Hong Kong) Limited	Hong Kong
Cypress Semiconductor International Sales B.V.	Netherlands
Cypress Semiconductor Intl Inc.	United States Of America
Cypress Semiconductor Ireland	Ireland
Cypress Semiconductor Italia S.r.l.	Italy
Cypress Semiconductor K.K. Japan	Japan
Cypress Semiconductor Korea Ltd.	Korea
Cypress Semiconductor Phil. Headquarters Ltd.	Cayman Islands
Cypress Semiconductor Procurement LLC	United States Of America
Cypress Semiconductor Round Rock, Inc.	United States Of America
Cypress Semiconductor SARL	France
Cypress Semiconductor Singapore Pte. Ltd	Singapore
Cypress Semiconductor Taiwan	Taiwan
Cypress Semiconductor Tech. India Ltd.	India
Cypress Semiconductor Technology (Shanghai) Co., Ltd.	China
Cypress Semiconductor Technology Ltd.	Cayman Islands
Cypress Semiconductor World Trade Corp.	Cayman Islands
CypressEnvirosystems Inc.	United States Of America
Cypress Venture Fund I, L.L.C.	United States Of America
Cypress Semiconductor Holding Two LLC	United States Of America
Deca Technologies Inc.	United States Of America
In-System Design, Inc.	United States Of America
Simtek Corporation	United States Of America
Silicon Magnetic Systems, Inc.	United States Of America
Weida Semiconductor Limited	Hong Kong

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-111381, 333-106667 and 333-95711) and in the Registration Statements on Form S-8 (Nos. 333-165750, 333-154748, 333-150484, 333-131494, 333-123192, 333-119049, 333-108175, 333-104672, 333-101479, 333-99221,333-91812, 333-91764, 333-81398, 333-71530, 333-71528, 333-66076, 333-66074, 333-65512, 333-59428, 333-58896, 333-57542, 333-48716, 333-48714, 333-48712, 333-44264, 333-32898, 333-93839, 333-93719, 333-79997, 333-76667, 333-76665, 333-68703, 333-52035, 333-24831, 333-00535 and 033-59153) of Cypress Semiconductor Corporation of our report dated February 25, 2011 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
February 25, 2011

Exhibit 31.1

CERTIFICATION
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, T.J. Rodgers, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cypress Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 25, 2011

By: /s/ T.J. Rodgers

T.J. Rodgers
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Brad W. Buss, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cypress Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 25, 2011

By: /s/ BRAD W. BUSS

Brad W. Buss
Executive Vice President, Finance and Administration and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, T.J. Rodgers, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended January 2, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: February 25, 2011

By: /s/ T.J. Rodgers

T.J. Rodgers
President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Brad W. Buss, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended January 2, 2011 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: February 25, 2011

By: /s/ Brad W. Buss

Brad W. Buss
Executive Vice President, Finance and Administration and Chief Financial Officer

March 29, 2011

Dear Fellow Stockholder:

You are cordially invited to attend Cypress Semiconductor Corporation's 2011 Annual Meeting of Stockholders. We will hold the meeting on Friday, May 13, 2011, at 10:00 a.m. Pacific Time, at our principal executive offices located at 198 Champion Court, San Jose, California 95134. We look forward to your attendance in person or by proxy at the meeting.

This Proxy Statement is being made available to our stockholders on or about April 1, 2011. Under rules adopted by the Securities and Exchange Commission, we are sending a Notice of Internet Availability of Proxy Materials to most of our stockholders. Stockholders who had previously elected to receive paper copies will receive paper copies and those who elected electronic delivery will receive an e-mail. The Notice of Internet Availability of Proxy Materials contains instructions on how to access our 2011 Proxy Statement and 2010 Annual Report and vote using the Internet. The notice also includes instructions on how you can receive a printed copy of your proxy materials, including the Annual Report, Notice of Annual Meeting, the Proxy Statement, and a proxy card. If you receive your proxy materials by mail, the Annual Report, Notice of Annual Meeting, the Proxy Statement, and proxy card will be enclosed. If you receive your proxy materials via e-mail, the e-mail will contain voting instructions and links to the Annual Report and the Proxy Statement on the Internet, both of which are available at http://www.cypress.com/go/annualreport.

At this year's Annual Meeting, the agenda includes the following items:

Agenda Item	Board Vote Recommendation
1. The Election of Directors	"FOR"
2. The Ratification of PricewaterhouseCoopers LLP as our Independent Registered Public Accounting Firm	"FOR"
3. Approval of the Amendment and Restatement of the 1994 Stock Plan to Approve Additional Shares	"FOR"
4. Advisory Vote on Executive Compensation of our Named Executive Officers	"FOR"
5. Advisory Vote on the Frequency of an Advisory Vote on Compensation of our Named Executive Officers	"ONE YEAR"

Please refer to the Proxy Statement for detailed information on each of the proposals and the Annual Meeting. Your vote is important, and we strongly urge you to cast your vote whether or not you plan to attend the Annual Meeting.

If you are a stockholder of record ("registered holder"), meaning that you hold shares directly with Computershare Investor Services, LLC, the inspector of elections will have your name on a list, and you will be able to gain entry to the Annual Meeting with a form of government-issued photo identification, such as a driver's license, state-issued ID card, or passport. Stockholders holding stock in brokerage accounts ("street name" or "beneficial holder") will need to bring a letter from their broker reflecting their stock ownership as of the record date, which is March 16, 2011.

Thank you for your ongoing support and continued interest in Cypress Semiconductor Corporation.

Very truly yours,

T.J. Rodgers
President and Chief Executive Officer

2011 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

TABLE OF CONTENTS

Page

NOTICE OF THE 2011 ANNUAL MEETING OF STOCKHOLDERS 1
PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS 2
Questions And Answers About This Proxy Material And Voting 2
Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials? 2
Why am I receiving these materials? 2
Who may attend the Annual Meeting? 2
Who is entitled to vote? 2
What may I vote on? 2
What is the difference between a registered stockholder and a beneficial stockholder? 2
How do I vote and what are the voting deadlines? 3
What shares may be voted and how may I cast my vote for each proposal? 3
What is the effect of a broker non-vote? 3
How many votes are needed to approve each proposal? 4
What is the advisory vote on the compensation of our Named Executive Officers? 4
What is the advisory vote on the frequency of the advisory vote on the compensation of our Named Executive Officers? 5
What is the quorum requirement? 5
How can I change my vote or revoke my proxy? 5
What does it mean if I get more than one Notice, proxy or voting instructions card? 5
Who will count the votes? 5
How much did this proxy solicitation cost and who will pay for the cost? 5
How can I receive the proxy statement and Annual Report by electronic delivery? 5
How can a stockholder request a copy of Cypress's Annual Report on Form 10-K filed with the SEC for fiscal year 2010? 5
How and when may I submit proposals for consideration at next year's Annual Meeting of stockholders or to nominate individuals to serve as directors for Cypress? 6
Where can I find the voting results of the Annual Meeting? 6
How many copies of the proxy materials will you deliver to stockholders sharing the same address? 6
PROPOSAL ONE 7
Election Of Directors 7
PROPOSAL TWO 10
Ratification Of The Selection Of Independent Registered Public Accounting Firm 10
PROPOSAL THREE 12
Approval Of The Amendment And Restatement Of The 1994 Stock Plan To Approve Additional Shares 12
Background 12
Summary of the Proposal 12
The Plan is a Critical Element of our Compensation Policy 12
The Plan Conforms to Best Practices 13
Shareholder Value Transfer (SVT) 13
The SunPower Spin-Off Greatly Increased Our Outstanding Equity Awards 13
Impact of Our Share Repurchase Program on Our Outstanding Equity Awards 14
Our Shareholder Value Transfer (SVT) Rate is Largely a Function of Our Aggressive Stock Repurchase Program and $2.6 Billion SunPower Spin-Off 16
Equity Compensation Awards Allow us to Implement Our Philosophy of Pay-For-Performance 19
Overhang Reduction 19
Summary 20
SUMMARY OF THE AMENDED PLAN 21
Background and Purpose of the Amended Plan 21
Types of Awards Granted Under the Amended Plan 21
Administration of the Amended Plan 21
No Repricing Without Stockholder Approval 21

Awards that Expire or are Forfeited ... 21
Eligibility to Receive Awards ... 21
Stock Options ... 21
Restricted Stock/Restricted Stock Units ... 22
Automatic Grants to Non-Employee Directors ... 22
Transfers or Leave of Absence ... 23
Changes in Capitalization ... 23
Merger or Asset Sale ... 23
Awards to be Granted to Certain Individuals and Groups ... 23
Limited Transferability of Awards ... 24
Federal Tax Aspects ... 24
Amendment and Termination of the Amended Plan ... 24
Summary ... 24
SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS ... 25
Equity Compensation Plan Information ... 25
PROPOSAL FOUR ... 26
Advisory Vote On The Compensation Of Our Named Executive Officers ... 26
PROPOSAL FIVE ... 28
Advisory Vote on the Frequency of the Advisory Vote on the Compansation of our Named Executive Officers ... 28
Introduction ... 28
Our Board's Recommendation ... 28
Advisory or Non-Binding Effect on Vote ... 28
How to Vote ... 28
CORPORATE GOVERNANCE ... 29
Corporate Governance Changes in Fiscal Year 2010 and for Fiscal Year 2011 ... 29
BOARD STRUCTURE ... 30
Determination of Independence ... 30
Executive Sessions ... 30
Meeting Attendance ... 30
Board Size and Membership ... 30
Nomination Criteria and Board Diversity ... 31
Communications from Stockholders and Other Interested Parties ... 31
Independent Director Contact ... 31
Board Leadership Structure ... 32
Board's Role in Risk Management Oversight ... 32
Risk Considerations in our Compensation Programs ... 32
BOARD COMMITTEES ... 33
The Audit Committee ... 33
The Compensation Committee ... 34
The Nominating and Corporate Governance Committee ... 35
The Operations Committee ... 35
COMPENSATION OF DIRECTORS ... 36
Non-Employee Director Equity Compensation ... 36
Non-Employee Director Stock Ownership Requirement ... 36
DIRECTOR COMPENSATION ... 37
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS ... 38
Security Ownership of Certain Beneficial Owners and Management ... 40
EXECUTIVE COMPENSATION ... 43
Compensation Discussion and Analysis (“CD&A”) ... 43
2010 Business Summary ... 43
Description of Key Terms Used in this Section ... 44
Compensation Philosophy and Objectives ... 46
The Role of the Compensation Committee ... 47
The Role of Consultants Retained by the Compensation Committee ... 47
The Role of Executive Officers in Determining Executive Compensation ... 47
Executive Compensation Components and Objectives ... 48
How the Committee Determined the Amount for Each Element of 2010 Compensation ... 49

2010 Peer Group Companies ... 50
Committee Considerations in Determining the 2010 Compensation of Executive Officers ... 51
2010 Cash and Equity Incentive Compensation for Named Executive Officers ... 51
Named Executive Officers' 2010 CSF Quarterly and Annual Performance Goals ... 52
Named Executive Officers' CSF Difficulty Levels and Likelihood of Achievement of 2011 PBP or KEBP Targets ... 53
Prohibition on Derivative Trading ... 53
Executive Stock Ownership Guidelines ... 53
2011 Executive Compensation Actions ... 53
Perquisites and Other Benefits ... 54
Company's policy on IRS 162(m) ... 54
Severance/Change in Control Compensation ... 54
REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS ... 55
EXECUTIVE COMPENSATION ... 56
Summary Compensation Table ... 57
IMPACT OF SPIN-OFF ADJUSTMENT ON EXECUTIVE COMPENSATION IN 2008 ... 59
GRANTS OF PLAN-BASED AWARDS ... 60
GRANTS OF PLAN-BASED AWARDS (NON-EQUITY) ... 62
OUTSTANDING EQUITY AWARDS ... 63
OPTION EXERCISES AND STOCK VESTING ... 66
NON-QUALIFIED DEFERRED COMPENSATION ... 66
OTHER DISCLOSURES ... 67
Compensation Committee Interlocks and Insider Participation ... 67
Certain Relationships and Related Transactions ... 67
Section 16(a) Beneficial Ownership Reporting Compliance ... 67
OTHER MATTERS ... 68
APPENDIX A - 1994 STOCK PLAN AS AMENDED AND RESTATED ... A-1

CYPRESS SEMICONDUCTOR CORPORATION

NOTICE OF THE 2011 ANNUAL MEETING OF STOCKHOLDERS

TO ALL CYPRESS STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Cypress Semiconductor Corporation, a Delaware corporation, will be held on:

Date: Friday, May 13, 2011

Time: 10:00 a.m. Pacific Time

Place: Cypress's principal executive offices located at 198 Champion Court, San Jose, California 95134

Items of Business:

1. The election of eight (8) directors to serve on our Board of Directors for a one-year term, and until their successors are elected;

2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2011;

3. Approval of the Amendment and Restatement of the 1994 Stock Plan to approve additional shares;

4. Advisory Vote on Compensation of our Named Executive Officers;

5. Advisory Vote on the Frequency of an Advisory Vote on Compensation of our Named Executive Officers; and

6. The transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this notice. This Notice of Annual Meeting, 2010 Annual Report and our 2011 Proxy Statement and form of proxy are being made available to stockholders on or about April 1, 2011.

All stockholders are cordially invited to attend the Annual Meeting in person. Only stockholders of record at the close of business on March 16, 2011 (the "Record Date"), are entitled to receive notice of, and may vote at, the Annual Meeting, or any adjournment or postponement thereof. Any stockholder attending the Annual Meeting and entitled to vote may do so in person even if such stockholder returned a proxy or voted by telephone or over the Internet. We have provided voting instructions in the attached Proxy Statement on how you can vote your shares before or at the Annual Meeting.

FOR THE BOARD OF DIRECTORS

Brad W. Buss
Corporate Secretary

San Jose, California, March 29, 2011

CYPRESS SEMICONDUCTOR CORPORATION

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Q: Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

A: In accordance with the rules of the Securities and Exchange Commission (the "SEC"), instead of mailing a printed copy of our proxy materials to stockholders, we are furnishing our proxy materials primarily over the Internet. Under the SEC rules, instead of a paper copy of our proxy materials, we mailed a Notice of Availability of Proxy Materials (the "Notice") to most of our stockholders to instruct you on how to access and review our proxy materials on the Internet. The Notice instructs you on how to submit your vote on the Internet and also contains instructions on how a stockholder may request a paper copy of our proxy materials, including this proxy statement ("Proxy Statement"), our 2010 Annual Report and a proxy card or voting instruction card.

Q: Why am I receiving these materials?

A: The Board of Directors (the "Board") of Cypress Semiconductor Corporation (sometimes referred to as "we", "us", "our", "the Company" or "Cypress") is providing these proxy materials to solicit your vote at the 2011 Annual Meeting of Stockholders ("Annual Meeting") and at any adjournment or postponement thereof. The Annual Meeting will be held on Friday, May 13, 2011, at 10:00 a.m. Pacific Daylight Time at our principal offices located at 198 Champion Court, San Jose, California 95134. The telephone number at this address is (408) 943-2600.

Q: Who may attend the Annual Meeting?

A: All stockholders and holders of proxies for those stockholders and other persons invited by Cypress may attend. If your shares are registered in the name of a brokerage firm or a bank, you must bring to the Annual Meeting a letter from your broker indicating you hold the shares in the name of the broker or banker, or a copy of your proxy card if you are the direct or indirect owner of your shares as of March 16, 2011 (the "Record Date").

Q: Who is entitled to vote?

A: Only stockholders of Cypress as of the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the Record Date, there were 174,384,675 shares outstanding of Cypress's common stock, par value $0.01 per share.

The date of this Proxy Statement is March 29, 2011, and it was filed with the SEC and made available on the Internet on or about April 1, 2011.

Q: What may I vote on?

A: You may vote on all the items listed below:

1. The election of eight (8) directors to serve on our Board of Directors for a one-year term, and until their successors are elected;
2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year 2011;
3. The approval of the Amendment and Restatement of our 1994 Stock Plan to approve additional shares;
4. Advisory Vote on Compensation of our Named Executive Officers;
5. Advisory Vote on the Frequency of an Advisory Vote on Compensation of our Named Executive Officers; and
6. The transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

Q: What is the difference between a registered stockholder and a beneficial stockholder?

A: ***Registered Stockholder or Stockholder of Record: Shares Registered in Your Name***

If on March 16, 2011 your shares were registered directly in your name with the Company's transfer agent, Computershare Investor Services, LLC, then you are a registered stockholder or a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Shares held in a brokerage or bank account are not generally registered directly in your name.

Beneficial Stockholder: Shares Registered in the Name of a Broker or Bank

If on March 16, 2011, your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial stockholder of shares held in "street name" and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial stockholder, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy from your broker or other agent.

Q: How do I vote and what are the voting deadlines?

A: Whether you hold your shares directly as the stockholder of record or beneficially in "street name", you may vote your shares by proxy without attending the Annual Meeting by proxy. Depending on how you hold your shares, you may vote your shares in one of the following ways:

Stockholders of Record: If you are a stockholder of record, there are several ways for you to vote your shares.

- **By Mail**. If you received printed proxy materials, you may submit your vote by completing, signing and dating each proxy card received and returning it in the prepaid envelope. Sign your name exactly as it appears on the proxy card. Proxy cards submitted by mail must be received no later than May 12, 2011, to be voted at the Annual Meeting.
- **By telephone or over the Internet**. You may vote your shares by telephone or via the Internet by following the instructions provided in the Notice. If you vote by telephone or via the Internet, you do not need to return a proxy card by mail. Internet and telephone voting are available 24 hours a day. Votes submitted by telephone or through the Internet must be received by 11:59 p.m. Eastern Time on May 12, 2011.
- **In person at the Annual Meeting**. You may vote your shares in person at the Annual Meeting. Even if you plan to attend the Annual Meeting in person, we recommend that you also submit your proxy card or voting instructions or vote by telephone or via the Internet by the applicable deadline so that your vote will be counted if you later decide not to attend the meeting.

Beneficial Stockholders: If you are a beneficial owner of your shares, you should have received a Notice of Internet Availability of Proxy Materials or voting instructions from the broker or other nominee holding your shares. You should follow the instructions in the Notice or voting instructions provided by your broker or nominee in order to instruct your broker or other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of the broker or nominee. Shares held beneficially may be voted in person at the Annual Meeting only if you obtain a legal proxy from the broker or nominee giving you the right to vote the shares.

Q: What shares may be voted and how may I cast my vote for each proposal?

A: You may vote all shares you own as of the close of business on the Record Date. You may cast one vote per share of common stock for each proposal except that a stockholder voting for the election of directors has the right to cumulate such stockholder's votes. This means you may give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares you are entitled to vote, or you may distribute your shares among as many candidates as you may select, provided that your votes cannot be cast for more than eight (8) candidates. For example, if you own 100 shares of stock, and there are eight (8) directors to be elected at the Annual Meeting, you may allocate 800 shares (8 times 100) as "FOR" votes among as few or as many directors to be elected at the Annual Meeting as you choose. If you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by so indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the Annual Meeting. If you hold shares beneficially in street name and wish to cumulate your votes, you should contact your broker or nominee.

Q: What is the effect of a broker non-vote?

A: Brokers or other nominees who hold shares of our common stock for a beneficial owner have the discretion to vote on routine proposals when they have not received voting instructions from the beneficial owner at least ten days prior to the Annual Meeting. A broker non-vote occurs when a broker or other nominee does not receive voting instructions from the beneficial owner and does not have the discretion to direct the voting of the shares. Broker non-votes will be counted for purposes of calculating whether a quorum is present at the Annual Meeting, but will not be counted for purposes of determining the number of votes present in person or represented by proxy and entitled to vote with respect to a particular proposal. Thus, a broker non-vote will not impact our ability to obtain a quorum and will not otherwise affect the outcome of the vote on a proposal that requires a plurality of votes cast (Proposal 1) or the approval of a majority of the votes present in person or represented by proxy and entitled to vote (Proposals 2 and 3) or the advisory votes cast (Proposal 4 & 5).

Q: How many votes are needed to approve each proposal?

A: For the election of directors, the eight director nominees receiving the highest number of "FOR" votes will be elected.

With respect to Proposal 1, you may vote “FOR” all nominees, “WITHHOLD” your vote as to all nominees, or “FOR” all nominees except those specific nominees from whom you “WITHHOLD” your vote. The eight nominees receiving the most “FOR” votes will be elected. A properly executed proxy marked “WITHHOLD” with respect to the election of one or more directors will not be voted with respect to the director or directors indicated. Proxies may not be voted for more than eight directors.

With respect to Proposals 2 and 3, we must receive a “FOR” vote from the majority of shares present and entitled to vote either in person or by proxy. For Proposals 2, 3, 4 and 5 if you “ABSTAIN” from voting, it will have the same effect as an “AGAINST” vote. If you hold your shares in “street name”, it is critical that you cast your vote if you want it to count in the election of directors. For Proposal 1, recent changes in regulation have been made to take away the ability of your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors, no votes will be cast on your behalf. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of the Company's independent registered public accounting firm. Proposals 4 and 5 are only advisory, but your bank or broker does not have the discretion to vote your uninstructed shares.

PROPOSAL	VOTE REQUIRED	BROKER DISCRETIONARY VOTE ALLOWED
Proposal 1– Election of eight (8) directors	Plurality of votes cast	No
Proposal 2 – The ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm	Majority of shares entitled to vote and present in person or represented by proxy	Yes
Proposal 3 – Approval of the Amended and Restated 1994 Stock Plan to approve additional shares	Majority of shares entitled to vote and present in person or represented by proxy	No
Proposal 4 – Advisory Vote on Compensation of our Named Executive Officers	Majority of shares entitled to vote and present in person or represented by proxy	No
Proposal 5 – Advisory Vote on the Frequency of Advisory Vote on the Compensation of our Named Executive Officers	Majority of shares entitled to vote and present in person or represented by proxy	No

Q: What is the advisory vote on the compensation of our Named Executive Officers?

A: We have included Proposal 4 in this Proxy Statement (also known as say-on-pay vote) to allow our stockholders to provide us a non-binding vote on the compensation of our Named Executive Officers as disclosed in this Proxy Statement. The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, requires issuers, such as our Company, to include a resolution in the proxy statement that will enable our stockholders to vote to approve, on an advisory (non-binding) basis, the compensation of our Named Executive Officers as disclosed in this Proxy Statement. Your vote on this item will provide our Company insight into our stockholder’s view on our compensation practices pertaining to our Named Executive Officers.

Q: What is the advisory vote on the frequency of the advisory vote on the compensation of our Named Executive Officers?

A: We are required by the Dodd-Frank Act to present a voting request to stockholders every six years, asking stockholders for a non-binding vote to let the Company know if stockholders want us to present a "say-on-pay" voting request either every one, every two or every three years. Such request is also referred to as the "frequency of say-on-pay" vote. We have included Proposal 5 for this purpose and our Board has recommended an annual presentation of a "say-on-pay" vote.

Q: What is the quorum requirement?

A: A quorum of stockholders is necessary to hold a valid annual meeting. A quorum will be present if at least a majority of the outstanding shares are represented by proxy or by stockholders present and entitled to vote at the Annual Meeting. Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker or bank) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the chairman of the annual meeting or holders of a majority of the votes present at the annual meeting may adjourn the Annual meeting to another time or date.

Q: How can I change my vote or revoke my proxy?

A: If you are a stockholder of record, you have the right to revoke your proxy and change your vote at any time before the Annual Meeting by (i) returning a later-dated proxy card, or (ii) voting again by Internet or telephone as more fully described on your Notice or proxy card. You may also revoke your proxy and change your vote by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not cause your previously granted proxy to be revoked unless you specifically so request or vote again at the Annual Meeting.

If your shares are held by a broker or other nominee, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person.

Q: What does it mean if I get more than one Notice, proxy or voting instructions card?

A: It means you hold shares in more than one registered account. You must vote all of your proxy cards in one of the manners described above (under "How do I vote and what are the voting deadlines?" on page 3) to ensure that all your shares are voted.

Q: Who will count the votes?

A: Representatives of Investor Communication Services, a division of Broadridge Financial Solutions, Inc., our mailing agent and tabulation service, will count the votes and Brad W. Buss, Corporate Secretary, will act as the inspector of elections. Cypress believes that the procedures to be used by the inspector of elections to count the votes are consistent with Delaware law concerning the voting of shares, determination of a quorum and the vote required to take stockholder action.

Q: How much did this proxy solicitation cost and who will pay for the cost?

A: The cost of soliciting your vote in connection with this proxy statement has been, or will be, borne by Cypress. We have retained Georgeson Shareholder Communications, Inc. to assist with the solicitation of proxies for a fee not to exceed $8,000, plus reimbursement of out-of-pocket expenses. Georgeson Shareholder Communications, Inc. may solicit proxies by mail, telephone, in person or via other electronic communications. We have also requested that banks, brokers and other custodians, nominees and fiduciaries send these proxy statement materials to the beneficial owners of our common stock they represent and secure their instructions as to the voting of such shares. We may reimburse such banks, brokers and other custodians, nominees and fiduciaries representing beneficial owners of our common stock for their expenses in forwarding solicitation material to such beneficial owners. Certain of our directors, officers or employees may also solicit proxies in person, by telephone, or by electronic communications, but they will not receive any additional compensation for doing so.

Q: How can I receive the proxy statement and Annual Report by electronic delivery?

A: You may sign up for Cypress's e-delivery program at www.cypress.com/edeliveryconsent. When you sign up for our electronic delivery program, you will be notified by e-mail whenever our annual report or proxy statement is available for viewing on the Internet. Your enrollment in the e-delivery program will remain in effect as long as your account remains active or you cancel your enrollment.

Q: How can a stockholder request a copy of Cypress's Annual Report on Form 10-K filed with the SEC for fiscal year 2010?

A: A stockholder may send a written request for a copy of our Annual Report on Form 10-K to Brad W. Buss, Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. Upon receipt of such

request by a stockholder, we will provide a copy of our Annual Report on Form 10-K without charge, including the financial statements and the financial statement schedules, required to be filed with the SEC pursuant to Rule 13a-1 of the Securities Exchange Act of 1934 for our fiscal year 2010. Our Annual Report on Form 10-K for the fiscal year ended January 2, 2011, was filed with the SEC on February 25, 2011 and is also available at our web site at: http://www.cypress.com/go/annualreport.

Q: How and when may I submit proposals for consideration at next year's Annual Meeting of stockholders or to nominate individuals to serve as directors for Cypress?

A: You may submit your proposals, including director nominations, for consideration at future Annual Meetings of stockholders by following the directions set forth below:

For stockholder proposals to be considered for inclusion in our 2012 proxy statement, the written proposal must be received by our Corporate Secretary at our corporate offices at 198 Champion Court, San Jose, California 95134, no later than December 3, 2011 in accordance with the requirements of Rule 14a-8. In addition, the Company's bylaws establish an advance notice procedure for stockholders who wish to present certain matters or nominate director candidates before or at an annual meeting of stockholders. Any stockholder who wants to make a proposal or director nomination that is not to be included in our proxy statement for the 2012 Annual Meeting of Stockholders must deliver written notice to be received by our Corporate Secretary at our corporate offices at 198 Champion Court, San Jose, California 95134, no earlier than January 14, 2012 and no later than February 14, 2012. Any such proposal must contain the specific information required by the Company's bylaws. In the event the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's Annual Meeting, the deadline for inclusion of stockholder proposals in our proxy statement is instead a reasonable time before Cypress begins to print and mail its proxy materials, and the deadline for submitting stockholder proposals not to be included in our proxy statement is no later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. All stockholder proposals will also need to comply with SEC regulations, including Rule 14a-8 of the 1934 Securities Exchange Act regarding the inclusion of stockholder proposals in any Company-sponsored proxy material.

A submission by a stockholder must contain the specific information required in the Company's bylaws. If you would like a copy of Cypress's current bylaws, please write to Brad W. Buss, Corporate Secretary, 198 Champion Court, San Jose, California 95134.

Q: Where can I find the voting results of the Annual Meeting?

A: Cypress will announce preliminary voting results at the 2011 Annual Meeting and file a Current Report on Form 8-K announcing the final voting results after the Annual Meeting.

Q: How many copies of the proxy materials will you deliver to stockholders sharing the same address?

A: To reduce the expenses of delivering duplicate proxy materials, we are taking advantage of the SEC's "householding" rules that permit us to deliver only one set of proxy materials to stockholders who share an address, unless otherwise requested by the stockholders. If you have not enrolled in our electronic delivery program, share an address with another stockholder and have received only one set of proxy materials and desire or require to receive additional copies of the proxy materials, you may request a separate copy of these materials, including the Annual Report, at no cost to you by writing to Brad W. Buss, Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. The telephone number is (408) 934-2600. For future annual meetings, you may request separate voting materials, or request that we send only one set of proxy materials to you if you are receiving multiple copies, by writing to Investor Relations at the address given above.

IMPORTANT INFORMATION REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2011 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 13, 2011.

Copies of this Proxy Statement and our 2010 Annual Report to stockholders are also available online at http://www.cypress.com/go/annualreport. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

PROPOSAL ONE

ELECTION OF DIRECTORS

A board of eight (8) directors is to be elected at the 2011 Annual Meeting. Proxies can only be voted for the number of nominees named in this Proxy Statement. All directors are elected annually and serve a one-year term until the next annual meeting where they or their successors are elected. If you submit a signed proxy card that does not specify how you wish to vote, your shares will be voted for the eight (8) director nominees named below, seven of whom are presently serving as our directors. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by the present Board to fill the vacancy. We do not expect any nominee will be unable or will decline to serve as a director. There are no arrangements or understandings between any nominee and any other person pursuant to which he was selected as a director or a nominee. As of the time of filing of this Proxy Statement, there were no director candidates recommended by stockholders or stockholder groups beneficially owning 5% of voting common stock for at least one (1) year. The Board has nominated Mr. van den Hoek for election and all other candidates for re-election by our stockholders.

Nominees for Election to Our Board of Directors

Name of Nominee	Age	Principal Occupation	Director Since
T.J. Rodgers	62	President and Chief Executive Officer of Cypress	1982
W. Steve Albrecht	64	Andersen Alumni Professor of Accounting, Marriott School of Management, Brigham Young University	2003
Eric A. Benhamou	55	Chairman of our Board, and former Chairman of the Board of 3Com Corporation	1993
Lloyd Carney	49	Chief Executive Officer, Xsigo Systems	2005
James R. Long	68	Consultant, Former Executive Vice President of Nortel	2000
J. Daniel McCranie	67	Chairman of the Board of ON Semiconductor and former Chairman of the Board of Virage Logic	2005
J. D. Sherman	45	Chief Financial Officer, Akamai Technologies	2010
Wilbert van den Hoek	54	Consultant, Former Chief Executive Officer of Novellus Development Company, LLC and Executive Vice President of Novellus Systems, Inc.	N/A

Except as set forth below, each of the nominees has been engaged in his principal occupation described above during the past five (5) years. There are no family relationships among our directors and executive officers.

T.J. Rodgers is founder, president, chief executive officer, and a director of Cypress Semiconductor Corporation. He sits on the board of directors of Cypress's internal subsidiaries as well as Bloom Energy, a privately held fuel cell company and as at the date of this Proxy Statement, SunPower Corporation, a public company. He is also a Trustee of Dartmouth College, his alma mater. Mr. Rodgers was a Sloan scholar at Dartmouth, where he graduated with a double major in physics and chemistry. He attended Stanford University on a Hertz fellowship, earning a master's degree and a Ph.D. in electrical engineering. He managed the MOS memory design group at AMI from 1975 to 1980 before moving to Advanced Micro Devices (AMD), where he ran AMD's static RAM product group until 1982, when he founded Cypress. As Cypress's founder, Mr. Rodgers has the benefit of the Company's complete history. This advantage, taken together with his expert technical and analytical skills, vast executive experience, and over four decades of experience in the semiconductor industry, make him uniquely qualified to be on our Board.

W. Steve Albrecht is the Andersen Alumni Professor of Accounting at the Marriott School of Management at Brigham Young University ("BYU"). He served as the associate dean of the school until July 2008. Mr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined BYU in 1977 after teaching at Stanford University and the University of Illinois. Prior to becoming a professor, he worked as an accountant for Deloitte & Touche. Mr. Albrecht is the past president of the American Accounting Association and the Association of Certified Fraud Examiners. Since 2005, he has served on the board of directors of SunPower Corporation. Until his resignation in 2009, Mr. Albrecht served on the board of directors of Red Hat from 2003, and SkyWest Airlines from 2003. In 2011, he was re-appointed to the board of directors of Red Hat. He is a former trustee of the Financial Accounting Foundation that provides oversight to the Financial Accounting Standards Board ("FASB") and the Governmental Accounting Standards Board ("GASB"). Mr. Albrecht holds a Bachelor of Science degree from Brigham Young University, a Masters degree in Business Administration and a Doctorate degree in Accounting from the

University of Wisconsin. Mr. Albrecht's extensive experience with public and financial accounting matters, especially with respect to multi-national companies, makes him well-qualified to be on our Board.

Eric A. Benhamou is the chairman of our Board of Directors and former chairman of the board of 3Com Corporation. He served as chief executive officer of Palm, Inc. from October 2001 until October 2003 and chairman until October 2007, and was chief executive officer of 3Com from 1990 until the end of 2000. Mr. Benhamou co-founded Bridge Communications, an early networking pioneer, and was vice president of engineering until its merger with 3Com in 1987. He is also a member of the board of directors of RealNetworks, Inc., Silicon Valley Bank, and Voltaire, Inc. He serves on the executive committee of TechNet and is vice chairman of the board of governors of Ben Gurion University of the Negev. He is the chief executive officer of Benhamou Global Ventures, an investment firm he established in 2004. Mr. Benhamou holds a Master of Science degree from Stanford University's School of Engineering and a Diplôme d'Ingénieur from Ecole Nationale Supérieure d'Arts et Métiers, Paris. In addition to his engineering expertise, we believe Mr. Benhamou's extensive experience managing public companies in the technology sector as well as his expertise in venture and other financial transactions make him well-qualified to be on our Board.

Lloyd Carney is the chief executive officer and member of the board of directors of Xsigo Systems, a venture funded IO Virtualization Platform. He is also a member of the board of directors of Technicolor and serves as the chairman of that board's Technology Committee. Prior to joining Xsigo in 2008, he was the general manager of IBM's NetCool Division from 2006 to 2007. Prior to his employment at IBM, he was the chairman and chief executive officer of Micromuse from 2003-2005 before it was acquired by IBM in 2006. Prior to Micromuse, Mr. Carney was the chief operations officer and executive vice president at Juniper Networks where he oversaw the engineering, product management and manufacturing divisions from 2002 until July, 2003. Prior to joining Juniper Networks, Mr. Carney was the president of the Core IP Division, the Wireless Internet Division and the Enterprise Data Division at Nortel Networks from 1997 until 2001. Mr. Carney brings to our Board broad-based experience in the semiconductor and non-semiconductor industries. Mr. Carney holds a Bachelor of Science degree in Electrical Engineering Technology from Wentworth Institute and a Master of Science degree in Applied Business Management from Lesley College, Cambridge, Massachusetts. We believe Mr. Carney is well-qualified to be on our Board because he possesses significant executive, entrepreneurial and operational expertise.

James R. Long has been an independent business consultant since 1999. He retired in 1999 as executive vice president of Nortel Networks Corporation and president of Nortel Enterprise Solutions. Between 1991 and 1999, Mr. Long was the president of various business units at Nortel Networks, including Asia Pacific, Nortel World Trade, and the Enterprise Solutions group. Prior to joining Nortel, Mr. Long held a variety of senior executive positions with IBM Corporation and Rolm Company, an IBM and Siemens joint venture. He served on the board of directors of former 3Com Corporation, NCR Corporation, and still serves on the board of directors of the Polynesian Cultural Center. In addition to his corporate strategy skills, we believe Mr. Long's extensive executive experience, especially with public companies, makes him well-qualified to be on our Board.

J. Daniel McCranie serves as the chairman of the board of directors of ON Semiconductor, a position he has held since 2002 and until recently was chairman of the board of directors of Virage Logic and chairman of the board of directors of Actel Corporation. He is also a member of the board of directors of Freescale Semiconductor. In the recent past, Mr. McCranie has served as chairman of the board of Xicor Corporation, member of the board of directors for California Microdevices, and member of the board of directors for ASAT Corporation. Mr. McCranie served as Cypress's executive vice president of sales and marketing from 1993-2001. Prior to his initial tenure with Cypress, Mr. McCranie was the chairman of the board, president and chief executive officer of SEEQ Technology, and held positions of increasing responsibility in management, engineering, and sales and marketing at Harris Corporation, Advanced Micro Devices, American Microsystems and Philips Corporation. Mr. McCranie brings to us a robust experience in operations, sales and execution in the semiconductor industry, and possesses a unique insight into Cypress's culture. Mr. McCranie holds a Bachelor of Science degree in electrical engineering from Virginia Polytechnic Institute and State University (Virginia Tech). We believe Mr. McCranie is well-qualified to be on our Board due to his extensive sales and marketing experience, in-depth knowledge of the semiconductor industry and his leadership skills as evidenced by his executive positions.

J. D. Sherman is the chief financial officer at Akamai Technologies, a leading web networking infrastructure company. He has held this position since 2006. Prior to Akamai, he served as the chief financial executive of IBM's $21 billion Systems and Technology Group from January until October, 2005. During his 15-year career at IBM, he held a number of senior executive positions in finance, including vice president of finance and planning for the company's zSeries Server Division. Mr. Sherman also served as chief financial officer for CommQuest, a wholly owned IBM subsidiary in the wireless semiconductor design industry from 1998 until 2000. Mr. Sherman holds a master's degree in business administration from the University of Chicago and a bachelor's degree in Economics from Emory University. We believe Mr. Sherman is well-qualified to sit on our Board because of his extensive executive management, strong financial and business acumen and leadership in a large public technology company.

Wilbert van den Hoek retired from Novellus Systems, Inc. in 2008, where he was president and chief executive officer of Novellus Development Company, LLC from 2005. He joined Novellus Systems, Inc. in 1990 and served in various senior executive positions until his retirement in 2008. From 1980 to 1990, he held various positions at Philips Research Laboratories. He is also chairman of the board of directors of SDC Materials, a privately held company focused on creating and commercializing

high value nano-enhanced products, where he has served since January 2011. He is chairman of the board of directors of Replisaurus Technologies, AB, a privately held company that develops metallization solutions for the electronics industry and has served as a member of the board of directors since 2009. From 2004 until 2006 when the company went public, he served on the board of directors of Neah Power Systems, Inc., a company that develops silicon based direct methanol fuel cells. For the past seven years he has served on Cypress's Technical Advisory Board. Since 2005, he has served on the technical advisory boards of various organizations, Cavendish Kinetics, Inc., a fabless semiconductor company, that develops 3rd generation MEMS technology integrated with standard CMOS processes, Innopad, Inc., a privately held company that develops and markets polishing pads for chemical mechanical planarization applications, Innovent Technologies, LLC, a privately held engineering and manufacturing company; and Process Relations, an independent software vendor that specializes in developing and transferring high-tech manufacturing processes. Mr. van den Hoek received a Doctorandus degree in Chemistry from the Rijks Universiteit Utrecht, The Netherlands in December 1979. We believe that Mr. van den Hoek is qualified to sit on our Board because of his extensive experience as a senior executive in the semiconductor manufacturing equipment industry and as a consultant to many semiconductor and other high technology companies, his understanding of semiconductor industry business models, segments, and competition, and his experience as a director at other technology companies.

In addition to the biographical information above regarding each nominee's specific experience, attributes, positions and qualifications, we believe that each of our director nominees has performed his duties with critical attributes such as honesty, integrity and an adherence to high ethical standards. Each of them has demonstrated strong business acumen and an ability to exercise sound judgment, as well as a commitment to the Company and its core values. Finally, we value their significant leadership and experience on other public company boards and board committees.

Required Vote

The eight (8) nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to vote shall be elected as directors to serve until our next annual meeting, where they or their successors will be elected. Votes withheld from this proposal are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no further legal effect under Delaware law.

☑ **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE NOMINEES PROPOSED ABOVE.**

PROPOSAL TWO

RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors, upon recommendation of the Audit Committee, has reappointed the firm of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending January 1, 2012, subject to ratification by our stockholders.

PricewaterhouseCoopers LLP has served as our independent registered public accounting firm since 1982. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

Stockholder ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm is not required by our bylaws or other applicable legal requirements. However, the Board is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice.

If the stockholders fail to ratify the selection of our independent registered public accounting firm, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board, at its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of Cypress and its stockholders.

All fees billed to Cypress by PricewaterhouseCoopers LLP for fiscal years 2010 and 2009 were pre-approved by the Audit Committee and were as follows:

Services	2010	2009
Audit Fees	$1,913,000	$1,934,000
Audit-Related Fees	$6,500	$125,000
Tax Fees	$1,264,000	$1,061,000
Total	$3,183,500	$3,120,000

Audit Fees: Includes fees associated with the annual audit of financial statements and internal control over financial reporting in compliance with regulatory requirements under the Sarbanes-Oxley Act, review of our quarterly reports on Form 10-Q, annual report on Form 10-K and periodic reports on Form 8-K, consents issued in connection with our Form S-8 filings, assistance and review with other documents we filed with the SEC, and statutory audits required internationally.

Audit-Related Fees: Audit-related services principally include employee benefit plan audits, internal control consulting, and accounting consultations not associated with the regular audit.

Tax Fees: Includes fees for tax compliance (tax return preparation assistance and expatriate tax services), general tax planning, tax-related services on acquisition and international tax consulting.

All Other Fees: Cypress was not billed any other fees by PricewaterhouseCoopers LLP.

Audit Committee Pre-Approval Policy

The Audit Committee has adopted a policy that requires advance approval of all audit services, audit-related services, tax, and other services performed by the Company's independent registered public accounting firm. With the exception of certain de-minimis amounts, unless the specific service has been previously pre-approved with respect to that fiscal year, the Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform such services for Cypress.

Required Vote

The affirmative vote of the holders of a majority of the shares represented and entitled to vote at the meeting will be required to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending January 1, 2012.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PROPOSAL THREE

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 1994 STOCK PLAN TO APPROVE ADDITIONAL SHARES

Background

Our 1994 Stock Plan (the "Plan") allows us to grant equity compensation awards to our employees, officers and directors. The Plan permits us to grant service-based awards and long-term performance-based awards, including our performance accelerated restricted stock ("PARS") program that we adopted in 2007 to retain and incentivize key employees. In 2007, under the PARS program, we awarded performance-based vesting restricted stock units ("RSUs") to key employees, including our Named Executive Officers ("NEOs") and our other executive officers. Our executive officers, including our NEOs, have not received any other standard awards since 2007, when we granted a five-year tranche of PARS that could be earned from 2007 through 2011, subject to achieving performance metrics. Accordingly, our executive officers, including our NEOs, are now due for new awards under the PARS program. As of March 1, 2011, the Plan had approximately 11.1 million shares remaining available for grant. We are asking our stockholders to approve adding 15 million shares to the Plan.

If our stockholders do not approve this proposal, we will not be able to continue to offer competitive equity packages to retain our current employees and hire new employees after 2011. Additionally, we would then expect to have no shares available to grant any awards to any of our NEOs beginning in 2012. To fund our PARS program for the next two years, and to continue to provide equity incentives to our employees at a competitive level, the Board recommends that our stockholders approve reserving an additional 15 million shares under the Plan, to bring the total number of shares available for issuance under the Plan to 26.1 million. The Plan contains a share fungibility provision whereby each full-value award, such as an RSU, issued from the Plan results in a debit to the Plan share reserve of 1.88 shares. Thus, if this proposal is approved, the 26.1 million total shares available for issuance would translate to a maximum of 13.9 million shares that could be issued as RSUs or other full-value awards.

Summary of the Proposal

Our Board of Directors approved the amendment and restatement of the Plan (as amended and restated, the "Amended Plan") on March 29, 2011, subject to approval by our stockholders at the 2011 Annual Meeting. The Amended Plan increases the number of shares issuable under the amended plan by 15 million shares. We are not asking our stockholders to approve any other Plan amendment, and we have not asked the shareholders for additional shares under the Plan since 2004.

This proposal summarizes why our stockholders should approve this proposal. It also describes the major features of the Amended Plan, but this description is qualified in its entirety by reference to the actual text of the Amended Plan, set forth as Exhibit A to this proxy statement.

The Plan is a Critical Element of our Compensation Policy

Our employees are our most valuable asset. Accordingly, the approval of the Amended Plan is in the best interest of our stockholders, as equity awards granted under the plan help us to:

- attract, motivate, and retain talented employees, consultants and non-employee directors;
- align employee and stockholder interests;
- link employee compensation with company performance; and
- maintain a culture based on employee stock ownership.

If this proposal is approved, the Compensation Committee (the "Committee") intends to grant, under our new PARS program to our executives and NEOs, between 40% and 60% fewer shares than were subject to awards made under the 2007 PARS program and to allocate most of the shares under the Amended Plan to performance-based awards and restricted stock units. The Compensation Committee also intends to continue to grant only performance-based RSUs to our executive officers, including our NEOs.

If our stockholders do not approve this amendment, our plans for growth could be significantly hampered and our ability to operate our business, especially in our rapidly growing PSoC® division, could be adversely affected. Furthermore, we may be compelled to instead offer material cash-based incentives to compete for talent, which could have a significant effect upon our quarterly results of operations and balance sheet. Moreover, this would not be competitive with most other technology companies.

Our success over the past few years is largely due to our highly talented employee base. Our future success depends heavily on our ability to attract and retain high caliber employees, consultants and board members. The ability to grant equity awards is a necessary and powerful recruiting and retention tool for us to hire and motivate the quality personnel we need to move our business forward.

Broadening markets for our products and services, our broadening customer base, our geographic diversity and increasing product complexity all drive requirements for a different skill set of employees and consultants that are in high demand, including: design engineers, software engineers, analog engineers, system engineers, and technical sales personnel. We face intense competition in attracting these professionals from traditional semiconductor to start-up companies as well as internet and social networking companies. The competition for talent is particularly intense in Silicon Valley. Cypress had more than 450 new hires in 2010. We expect to have over 550 new hires in 2011. Over 70% of our new hires are in technical positions, where we compete with a wide range of companies who offer equity awards as an integral part of their hiring programs. This influx of new talent is essential to expand our skills required to accelerate the design, manufacture and marketing of our higher value added products, software and solutions. Additionally, we have approximately 2,300 non-manufacturing personnel. A significant percentage of these personnel are granted equity awards annually.

The Plan Conforms to Best Practices

We designed the Plan to conform to best practices in equity incentive plans. For example, the Plan:

- prohibits equity award repricing without stockholder approval;
- does not permit options or stock appreciation rights to be granted with a term exceeding eight (8) years;
- permits the granting of full-value awards such as restricted stock and restricted stock units, which can be used in lieu of stock options to reduce the total number of our shares necessary to grant competitive equity awards; and
- applies a fungible share design whereby each full-value award issued results in a debit to the Plan share pool of 1.88 shares.

Shareholder Value Transfer (SVT)

Institutional Shareholder Services ("ISS") is an influential advisor to many investors, including many of our stockholders. Among other things, ISS evaluates the cost of proposals, such as this one, to increase equity plan share reserves. Based upon its analyses, ISS then advises stockholders to vote either for or against such proposals. Two of the most significant tests in ISS's analysis of equity plan proposals are shareholder value transfer, which measures stockholder dilution both in terms of a dollar amount and as a percentage of a company's market value, and gross burn rate, which measures a company's historical granting practices.

If a company's gross burn rate exceeds the greater of (i) the mean plus one standard deviation of a company's industry group, and (ii) 2% of the company's weighted common shares outstanding, then ISS will recommend voting against the equity plan proposal unless the company makes certain commitments as to its future gross burn rate.

If a company's SVT is too great, ISS will view the equity plan proposal as too costly and will recommend voting against the equity plan proposal.

ISS's calculations, however, do not factor out the effect of certain events. In Cypress's case, our highly successful 2008 spin-off of our publicly-held subsidiary, SunPower, and our aggressive stock repurchase program adversely affect the ISS calculations. In the following explanations, we illustrate the impact of the SunPower spin-off and our share repurchase program on our gross burn rate and SVT.

The SunPower Spin-Off Greatly Increased Our Outstanding Equity Awards

On September 29, 2008, Cypress distributed shares of its publicly-held subsidiary SunPower in a spin-off transaction. The SunPower shares had a distribution day value of approximately $2.6 billion – which was approximately 76% of the fully-diluted market capitalization of Cypress at the time of the spin-off. The value of each SunPower class B common share distributed on September 29, 2008 was $59.86. Each Cypress common stockholder as of the record date for the spin-off received .27 shares of SunPower class B shares of common stock for each Cypress share they owned.

The holders of awards under Cypress's equity plans did not receive any SunPower shares as part of the spin-off. Instead these equity awards were equitably adjusted. The volume weighted average price ("VWAP") of the Cypress common stock on September 29, 2008 (the last day of trading prior to the spin-off) was $21.52. The day after the spin-off the VWAP of the Cypress common stock dropped by approximately 76% to $5.22, reflecting the value of the spin-off distribution. As is common in most stock split and spin-off transactions, our outstanding equity awards were adjusted by a factor to compensate each equity holder for the value lost as a consequence of the spin-off. Our outstanding equity awards were multiplied by a spin-off ratio of 4.12 to preserve the pre-spin-off intrinsic value of the equity awards. The spin-off ratio was determined by dividing the Cypress stock VWAP prior to the spin-off of $21.52 by the Cypress stock VWAP post-spin of $5.22.

The spin-off adjustment caused an immediate, substantial increase in the number of shares subject to outstanding Cypress equity awards. As a result of the spin-off adjustment, these equity awards immediately increased by more than 87.2 million shares. As of March 1, 2011, of the 41.1 million shares subject to outstanding Cypress equity awards, approximately 72% represent grants

made prior to the spin-off (see Table #1). If the spin-off had not happened (see Table #2), we estimate that only 38% of the employee equity outstanding would be represented by grants made prior to the spin-off.

Therefore, most of our outstanding equity awards as of March 1, 2011 are a direct result of the spin-off adjustment. This materially and negatively affects our gross burn rate and SVT calculations.

Table #1 details our outstanding equity awards and awards available for grant as of March 1, 2011.

Table #1

Outstanding Grants as of March 1, 2011

	Weighted Average Remaining Option Term	Weighted Average Remaining RSU/RSA Term	Weighted Average Option Exercise Price	Options (Million)	RSU / RSA (Million)	Total (Million)
Common Stock Outstanding						175
Available for Grant:						11.1
Grants made post spin-off	7.5 years	3.4 years	$ 9.65	7.8	3.9	11.7
Grants made pre-spin-off	4.6 years	1.8 years	$ 4.41	23.5	5.9	29.4
Total Employee Equity Outstanding			**$ 5.71**	**31.3**	**9.8**	**41.1**

As of March 1, 2011, the Plan had 11.1 million shares of common stock available for issuance pursuant to equity awards. Options to purchase approximately 31.3 million shares of common stock were outstanding under the Plan, with a weighted average exercise price of $5.71 per share. As of March 1, 2011, there are 9.8 million shares subject to restricted stock units and restricted stock under the Plan of which approximately 35% are subject to performance targets which must be achieved before any shares can be earned.

If we reverse the adjustment to our equity awards due to the SunPower spin-off, the outstanding equity awards pre-spin-off are adjusted down by the spin-off adjustment factor of 4.12. This would result in 7.1 million shares outstanding as of March 1, 2011, as detailed in Table #2 below.

Table #2

Outstanding Grants as Adjusted for SunPower Spin-Off as of March 1, 2011

	Weighted Average Option Exercise Price	Options (Million)	RSU / RSA (Million)	Total (Million)
Grants made post spin	$ 9.65	7.8	3.9	11.7
Grants made pre-spin adjusted (by spin factor of 4.12022)	$ 4.41	5.7	1.4	7.1
Total Outstanding	**$ 5.71**	**13.5**	**5.3**	**18.8**

The outstanding equity awards in Table #1 are 219% greater than the outstanding equity awards in Table #2. This is solely due to the equity adjustments made in light of our SunPower spin-off. Accordingly, we believe that stockholders considering this proposal should consider this when analyzing our SVT and gross burn rate calculations. Specifically, our historical gross burn rate and SVT would be lower if the effect of the spin-off adjustment is reversed for purposes of making those calculations. In summary, while the SunPower spin-off negatively affected our burn rate and overhang in the short terms, it was an extremely positive event for Cypress shareholders. Our proposal to approve additional shares should not be punished for actions taken to help shareholders.

Impact of Our Share Repurchase Program on Our Outstanding Equity Awards

Our historical gross burn rate is also negatively affected by our aggressive stock repurchase program.

Since January 1, 2007 through December 31, 2010, we re-purchased 83.6 million shares as part of our program to increase stockholder value. This program has been well-received by our stockholders. Table #3 below illustrates our share repurchases by year as well as the weighted average impact by year to our outstanding shares:

Table #3

Cypress Semiconductor Repurchase Summary

	Total Share Repurchases (Million)	Weighted Average Share Adj. For Burn Rate By Year (Million)
2007	28.9	
2008	37.1	41.4
2009	5.8	67.8
2010	11.8	78.1
Total For Burn Rate Calculations (through FY 2010)	83.6	
Jan 3 - March 1, 2011	5.0	
Total for SVT Calculations	**88.6**	

ISS calculates gross burn rate by using a three-year trailing average. The numerator each year is the number of options and stock appreciation rights granted (ignoring any shares subject to equity awards that are forfeited due to their failure to vest) plus the number of full-value awards granted. The full-value awards are then multiplied by a factor that is dependent on the volatility of the company's publicly traded stock. This factor ranges from 1.5 to 4, with low volatility stocks receiving the higher factor of 4 and high volatility stocks receiving a lower factor of 1.5. The denominator each year is the Company's weighted average shares outstanding (ignoring share repurchases). This result is then compared to our industry average plus one standard deviation. ISS has publicly disclosed this average plus one standard deviation to be 6.64% for semiconductor companies in the Russell 3000 Index (in which we are included) for 2011. This formula does not adjust for company share repurchases. Accordingly, companies who repurchase shares have fewer shares outstanding. Therefore, since the denominator is smaller, the resulting fraction is greater. This tends to penalize companies who return cash to stockholders indirectly through an aggressive share repurchase program. Had Cypress not re-purchased these 83.6 million shares our historical gross burn rate as calculated by ISS would be significantly lower because our outstanding shares would be greater. The table below analyzes our gross burn rate excluding share repurchases and excluding the impact of our SunPower spin-off when formulating the denominator. Estimated calculations were prepared using actual data as detailed within our publicly disclosed financial statements.

Table #4

Cypress Semiconductor Gross Burn Rate Using ISS Methodology (Basic Shares)

	Three-Year Average Gross Burn Rate
Simulated ISS Calculation Of Gross Burn Rate:	9.27%
Simulated ISS Calculation of Gross Burn Rate Assuming 83.6M share repurchase did not occur:	6.86%
Simulated ISS Calculation of Gross Burn Rate Assuming SunPower Spin-Off did not occur:	5.48%

This analysis establishes that our share repurchase program has had a major impact on our historical gross burn rate and reduces the three (3) year average to 6.86% as compared to the simulated ISS calculation of 9.27%, very close to the 6.64% publicly deemed acceptable by ISS.

The other factor impacting the gross burn rate for 2008 and the resulting three (3) year average is the impact of the equity award adjustments made due to our SunPower spin-off. ISS's methodology does not adjust for this type of event. Accordingly, this results in many of the equity awards that we granted prior to the spin-off in 2008 being multiplied, for purposes of the gross burn rate calculation, by a factor of 4.12. Table #5 below analyzes our historical burn rate by excluding the effect of our share repurchases as detailed in Table #3 and also analyzes our historical burn rate by adjusting for the impact of the SunPower spin-off.

Table #5

Cypress Semiconductor Gross Burn Rate Using ISS Methodology
(Basic Shares)

	Three-Year Average Gross Burn Rate
Simulated ISS Calculation of Gross Burn Rate Assuming SunPower Spin-off and 83.6M share repurchase shares did not occur:	3.88%

Excluding the effect of our share repurchases and the effect of the SunPower spin-off in 2008 results in a much lower gross burn rate, reducing our three-year average to 3.88%. This is well below the 6.64% gross burn rate that ISS finds acceptable for companies in our industry that are included in the Russell 3000 index.

Moreover, if we analyze our net burn rate, as opposed to our gross burn rate by including in these calculations equity awards that were forfeited due to their failure to vest, our trailing three-year average net burn rate is 3.5%. Adjusting this net burn rate to exclude the effect of the SunPower spin-off and our stock repurchase programs results in a net burn rate of .4%. Because it is a more precise indicator of how much equity we use to compensation our employees, consultants and non-employee board members, our net burn rate is what impacts the stockholders the most and should be more significant to our stockholders than our gross burn rate.

Cypress has been focused on reducing its annual equity burn rate. To do so, Cypress has:

- reduced the number of shares underlying the equity awards we grant; and
- has moved from granting stock options to granting full-value awards such as RSUs and performance-based RSUs.

If this proposal is approved, we intend to target the annual number of shares granted under Plan equity awards in 2011 and 2012 on average to be approximately 6.5% percent of our common stock outstanding without considering any forfeitures due to failure to vest or approximately 3% or below when taking such forfeitures into consideration.

Many companies, including Cypress, have implemented aggressive stock repurchase programs to return excess cash to stockholders in a tax efficient manner. Cypress's ability to grant equity awards should not be jeopardized because Cypress has repurchased shares in an effort to increase returns to our stockholders.

Our Shareholder Value Transfer (SVT) Rate is Largely a Function of Our Aggressive Stock Repurchase Program and $2.6 Billion SunPower Spin-Off

As noted above, the SunPower spin-off and aggressive stock repurchase program have materially and negatively affected our SVT and gross burn rate calculations. Cypress has been very successful in executing its strategic plan and our stock price appreciation has been significant as compared to our peers in recent years. The combination of these events complicates SVT analysis.

We propose to look at the SVT calculation in five (5) different ways. All calculations simulate ISS methodologies for calculating SVT:

SVT#1 is the baseline example as of March 1, 2011 and is calculated using our current outstanding equity awards with no adjustments for the SunPower spin-off, historical stock repurchases or the request for the additional 15 million shares. Our SVT calculated in this manner is approximately 20% and well above the range of what we estimate is the industry standard, which is 12% - 14%.

SVT #1 As of March 1, 2011		
CY SVT:	20%	
Industry Mid-Point	13%	
SVT INPUT		Non-Granted Shares Converted To Full Value Shares @1.88
New Shares	0	0
Available For Grant	11.100	5.904
Options Outstanding	31.27	
RSU/RSA Outstanding	9.82	41.090
		46.994
Shares Outstanding	175 M	

SVT#2 adjusts the baseline as represented in SVT#1 for the impact of our SunPower spin-off. This analysis involves reducing the outstanding employee equity awards by 22.3 million shares. Under this approach, the calculated SVT is approximately 11% and under our estimated industry mid-point target of 13%.

SVT #2 As of March 1, 2011		
CY SVT:	11%	
Industry Mid-Point	13%	
SVT INPUT		Non-Granted Shares Converted To Full Value Shares @1.88
New Shares	0	0
Available For Grant	11.100	5.904
Options Outstanding	13.478	
RSU/RSA Outstanding	5.318	18.795
		24.699
Shares Outstanding	175 M	

SVT#3 adjusts the baseline as represented in SVT#1 by the SunPower spin-off – lowering the outstanding employee equity awards by 22.3 million shares (see Table #2) and adjusts the shares outstanding for the 88.6 million shares repurchased from January 1, 2007 through March 1, 2011. The resulting SVT is approximately 8% and well under our estimated industry mid-point target of 13%.

SVT #3 As of March 1, 2011		
CY SVT:	8%	
Industry Mid-Point	13%	
SVT INPUT		Non-Granted Shares Converted To Full Value Shares @1.88
New Shares	0	0
Available For Grant	11.100	5.904
Options Outstanding	13.478	
RSU/RSA Outstanding	5.318	18.795
		24.699
Shares Outstanding	263 M	

SVT#4 adjusts for the impact of the SunPower spin-off as under SVT#2 and includes the impact of the 15 million shares we are asking to be added to the equity award pool. The calculated SVT is approximately 16% and above our estimated industry mid-point target, which we estimate to be 13%.

SVT #4 As of March 1, 2011		
CY SVT:	16%	
Industry Mid-Point	13%	
SVT INPUT		Non-Granted Shares Converted To Full Value Shares @1.88
New Shares	15.000	7.979
Available For Grant	11.100	5.904
Options Outstanding	13.478	
RSU/RSA Outstanding	5.318	18.795
		32.678
Shares Outstanding	175 M	

SVT#5 adjusts for the SunPower spin-off and the share repurchases as calculated under SVT#3 and includes the impact of the 15 million shares we are asking to be added to the equity award pool. The calculated SVT is approximately 11% and below our estimated industry mid-point target which we estimate to be 13%.

SVT #5 As of March 1, 2011		
CY SVT:	11%	
Industry Mid-Point	13%	
SVT INPUT		Non-Granted Shares Converted To Full Value Shares @1.88
New Shares	15.000	7.979
Available For Grant	11.100	5.904
Options Outstanding	13.478	
RSU/RSA Outstanding	5.318	18.795
		32.678
Shares Outstanding	263 M	

We are asking our stockholders to view the SunPower spin-off and our share repurchase programs as two stockholder friendly and value-creating events, and to not allow these positive events to unduly limit the Company's ability to hire and retain skilled, motivated employees.

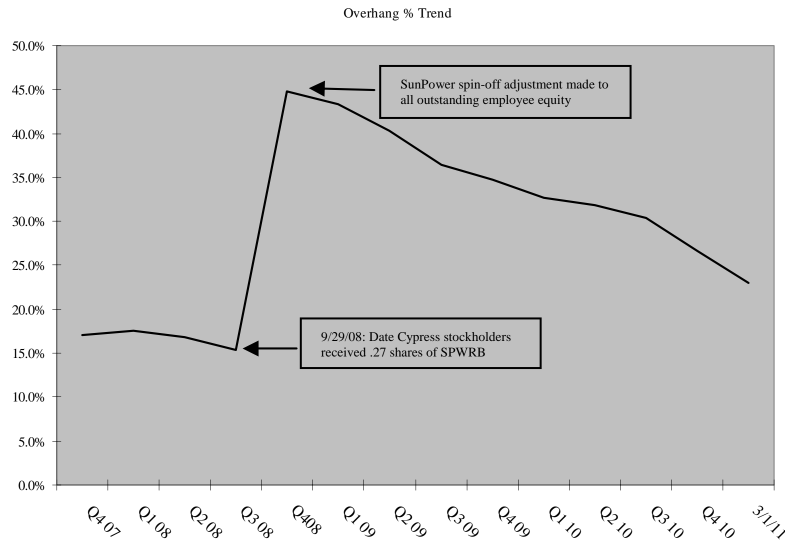
Equity Compensation Awards Allow us to Implement our Philosophy of Pay-For-Performance

Our employee equity granting practices are significantly directed at using pay-for-performance. Since 2007, more than one third of our employee equity grants, and all of our equity awards to our executive officers, vest only based upon achieving performance milestones.

Overhang Reduction

Overhang is another method of calculating the dilutive effect of equity compensation programs, similar to SVT. We have significantly reduced the overhang caused by the SunPower spin-off. As discussed above, the SunPower spin-off gave rise to an immediate and significant increase in outstanding employee equity awards. Prior to the day of the SunPower spin-off, our overhang (expressed as employee equity grants available for grant or outstanding as a percentage of common stock outstanding plus equity grants available for grant or outstanding) was at 15.4%. This was our lowest overhang level in over a decade. Immediately after the SunPower spin-off, our overhang increased to 45%. This number has decreased every quarter and now is approximately 23%. Based on past history and current equity award plan assumptions, including that this proposal is approved for an additional 15 million shares in the Plan and a constant outstanding share count, we expect that our overhang will reduce to approximately 15% by 2012.

The overhang Percent Trend Chart below depicts our overhang as it existed at the end of 2007 through the current period, March 1, 2011. As you can see, throughout 2008, our overhang percent trended down until the fourth quarter of 2008, the quarter in which SunPower was spun-off. As a direct result of equity awards adjustments made due to the spin-off, our overhang increased dramatically to 45% and has trended downward ever since to 23% as of March 1, 2011.



We have taken the following actions to reduce overhang:

- executing our business plan strategies drove our stock price higher encouraging employees to exercise stock options
- reduced our number of shares available to grant for new hires and annual awards on two (2) different occasions
- issued predominantly restricted stock units rather than stock options, which tends to reduce our overhang
- allowed our 1999 Stock Option Plan and its remaining share pool to expire with unissued awards

We intend to remain focused on reducing overhang and will continue to take aggressive steps towards our goal.

Summary

Equity awards are a key component of our overall compensation strategy, contributing a significant portion of our employees' total compensation. We are asking our stockholders to allow us to continue to hire and retain skilled, motivated employees through our competitive employee performance-based equity program, and to not allow the impact that the SunPower spin-off and aggressive stock repurchase programs have had on our SVT and burn rate calculations to negatively influence any decision regarding this proposal. We have continued to deliver strong returns to our stockholders and approval of this proposal is important so that we may continue to do so in the future.

Required Vote

The affirmative vote of the holders of a majority of the common stock present or represented at the meeting is required to approve the adoption of the Amended Plan and approve its material terms.

THE BOARD OF DIRECTORS RECOMMENDS VOTING "FOR" THE APPROVAL OF THE ADOPTION OF THE AMENDED PLAN AND APPROVAL OF ITS MATERIAL TERMS.

SUMMARY OF THE AMENDED PLAN

The following is a summary of the principal features of the Amended Plan and its operation. However, the summary is qualified in its entirety by reference to the Amended Plan, as set forth in Appendix A.

Background and Purpose of the Amended Plan

The Amended Plan is intended to (i) attract, (ii) retain, and (iii) increase incentives through share ownership on the part of eligible employees, consultants, and non-employee directors who provide significant services to us. We believe that over the years, our stock plans have made a significant contribution to the success of our business by increasing our ability to attract and retain highly competent individuals on whose judgment, initiative, leadership and continued efforts our growth and profitability depend.

Types of Awards Granted Under the Amended Plan

The Amended Plan permits the grant of the following types of discretionary incentive awards:

- incentive stock options,
- nonstatutory stock options,
- restricted stock (including restricted stock units), and
- stock appreciation rights.

The Amended Plan also provides for the grant of automatic, nondiscretionary stock options and restricted stock units to our non-employee directors. Collectively, the discretionary awards and the automatic options and restricted stock units are referred to as "Awards."

Administration of the Amended Plan

The Committee administers the Amended Plan. To make grants to certain of our officers and key employees, the members of the Committee must qualify as "non-employee" directors under Rule 16b-3 of the Securities Exchange Act of 1934, and as "outside directors" under Section 162(m) of the Internal Revenue Code (so that we can receive a federal tax deduction for certain compensation paid under the Amended Plan).

Subject to the terms of the Amended Plan, the Committee has the sole discretion to select the employees, consultants, and non-employee directors who will receive discretionary Awards, determine the terms and conditions of such discretionary Awards (for example, the exercise price and vesting schedule), and interpret the provisions of the Amended Plan and outstanding Awards. The Committee also has the authority to amend outstanding Awards, including the authority to accelerate vesting or to extend an option's post-termination exercise period (but not beyond the original option term). The Committee may delegate any part of its authority and powers under the Amended Plan to one or more of our directors and/or officers.

No Repricing Without Stockholder Approval

The Committee may not permit the repricing, including by way of exchange, of any option or restricted stock Award, without receiving prior stockholder approval.

Awards that Expire or are Forfeited

If an Award expires or is cancelled without having been fully exercised or vested, the unvested or cancelled shares generally will be returned to the available pool of shares reserved for issuance under the Amended Plan.

Eligibility to Receive Awards

The Committee selects the employees, consultants, and non-employee directors who will be granted discretionary Awards; provided that only employees may receive incentive stock options. The actual number of individuals who will receive discretionary Awards cannot be determined in advance because the Committee has the discretion to select the participants.

Our non-employee directors are eligible to receive automatic restricted stock unit grants upon joining our Board, and automatic RSU grants for each year they serve on the Board.

As of March 1, 2011, 3,488 employees and other service providers, including ten (10) executive officers and seven (7) non-employee directors, were eligible to participate in the Plan.

Stock Options

A stock option is the right to acquire shares at a fixed exercise price for a fixed period of time. Under the Amended Plan, the Committee may grant nonstatutory stock options and/or incentive stock options.

Share Limits. The Committee will determine the number of shares covered by each option, but during any fiscal year of Cypress, no participant may be granted options covering more than 2,000,000 shares.

Exercise Price. The exercise price of the shares subject to each option is set by the Committee, but cannot be less than 100% of the fair market value (on the date of grant) of the shares covered by the option.

Incentive Stock Options. The exercise price of an incentive stock option must be at least 110% of fair market value if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of Cypress or any parent or subsidiary. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed $100,000. Any shares in excess of this limit will be treated as a nonstatutory stock option. If the employee holds more than one incentive stock option, the incentive stock options are considered in the order in which they were granted.

Term and Vesting. An option granted under the Amended Plan generally cannot be exercised until it becomes vested. The Committee establishes the vesting schedule of each option at the time of grant. Options granted to new hires typically cliff vest as to 20% of the covered shares after one (1) year of service and vest monthly thereafter so as to be 100% vested after completing five (5) years of service. Options granted to existing employees typically vest monthly over five (5) years. Options granted under the Amended Plan expire at the times established by the Committee, but not later than eight (8) years after the grant date (such term is limited to five (5) years in the case of an incentive stock option granted to a participant who owns stock possessing more than 10% of the total combined voting power of all classes of stock of Cypress).

Exercise of the Option. An option granted under the Amended Plan is exercised by giving written or electronic notice to Cypress, specifying the number of shares to be purchased and tendering full payment of the exercise price to Cypress. The Committee may permit payment through the tender of shares that are already owned by the participant, or by any other means that the Committee determines to be consistent with the purpose of the Amended Plan. The participant must pay any taxes that Cypress is required to withhold at the time of exercise.

Termination of Participant. In the event an optionee's continuous status as an employee, director, or consultant terminates for any reason other than upon the optionee's death or disability, all of the options held by the optionee under the Amended Plan will be exercisable (to the extent the option was exercisable on the date of termination) within such period of time as is specified in the applicable option agreement. In the absence of a specified period of time in the option agreement, the vested portion of the option will remain exercisable for a period of thirty (30) days following the date of such termination. In the event an optionee's continuous status as an employee, director, or consultant terminates as a result of the optionee's disability, all of the options held by the optionee under the Amended Plan will be exercisable (to the extent the option was exercisable on the date of termination) for a period of six (6) months following the date of such disability or such longer period of time not exceeding twelve (12) months, as specified in the applicable option agreement. In the event an optionee's continuous status as an employee, director, or consultant terminates as a result of the optionee's death, all of the options held by the optionee under the Amended Plan will be exercisable (to the extent the option would have become exercisable had the optionee continued living and remained in continuous status as an employee, director, or consultant) for an additional twelve (12) months. In addition, if the optionee dies within thirty (30) days after his or her termination of continuous status as an employee, director, or consultant, the option may be exercised within six (6) months following the date of such death (to the extent the option was exercisable on the date of termination). However, in no event may the period of exercisability extend beyond the expiration date of the option.

Restricted Stock/Restricted Stock Units

Awards of restricted stock are shares that vest in accordance with the terms and conditions established by the Committee. The Committee will determine the terms and conditions of restricted stock granted under the Amended Plan, including the number of shares of restricted stock granted to any employee, consultant, or non-employee director and whether the award will be in the form of restricted stock or restricted stock units; provided that during any fiscal year of Cypress, no participant may be granted more than 3,296,176 shares of restricted stock or restricted stock units.

In determining whether an award of restricted stock or restricted stock units should be made, and/or the vesting schedule for any such Award, the Committee may impose whatever conditions to vesting as it determines to be appropriate. For example, the Committee may determine to grant an Award of restricted stock only if the participant satisfies performance goals established by the Committee.

Automatic Grants to Non-Employee Directors

Under the Amended Plan, our non-employee directors receive automatic RSU grants upon first joining our Board and annual RSU grants thereafter. No person has any discretion to select which non-employee directors will be granted automatic grants or to determine the number of shares to be covered by the automatic grants.

Administration Award Grants. Automatic award grants are not subject to any discretionary administration and are made pursuant to a non-discretionary formula as follows:

- upon first joining the board, each non-employee director is automatically granted a number of RSUs equal to $525,000 divided by the trading price of one share of common stock on the grant date, rounded down to the nearest whole share. This initial RSU grant vests as to 1/3 of the covered units on each anniversary of the grant date, subject to continued service; and

- each outside director who was an outside director on the date of the prior year's annual stockholder meeting is automatically granted a number of RSUs equal to $175,000 divided by the trading price of one share of common stock on the grant date, rounded down to the nearest whole share. Each outside director who was not an outside director on the date of the prior year's annual stockholder meeting is automatically granted a number of RSUs equal to $175,000 divided by the trading price of one share of common stock on the grant date, rounded down to the nearest whole share, then multiplied by a fraction, the numerator of which is the number of days since the outside director received their initial RSU grant, and the denominator of which is 365, rounded down to the nearest whole share. In either case, the Annual RSU Grant is 100% vested on the grant date.

Transfers or Leave of Absence

Unless otherwise determined by the Committee, and subject to applicable laws, the vesting of awards granted under the Amended Plan ceases during any unpaid leave of absence. Moreover, unless otherwise determined by the Committee, any employee who transfers his or her employment to a subsidiary and receives an equity incentive covering such subsidiary's equity securities in connection with such transfer, ceases vesting in his or her awards granted under the Amended Plan, until such time (if at all) the employee transfers from the employment of the subsidiary or another subsidiary back to the employ of Cypress.

Changes in Capitalization

If we experience a stock split, reverse stock split, stock dividend, combination or reclassification of our shares, or any other increase or decrease in the number of issued shares effected without our receipt of consideration (except for certain conversions of convertible securities), appropriate adjustments will be made subject to any required action by out stockholders, to the number of shares available for issuance under the Amended Plan, the number of shares issuable as restricted stock or restricted stock unit awards under the Amended Plan, the number of shares covered by each outstanding Award, the price per share covered by each outstanding Award, and the per-person limits on Awards, as appropriate to reflect the stock dividend or other change.

Similarly, if we experience a spin-off, split-off, or similar transaction, then subject to any required action by our stockholders, the number and/or type of shares covered by each outstanding award, the number and/or type of shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation, forfeiture or expiration of an Award and the price per share, if any, of common stock covered by each such outstanding award will be appropriately and proportionately adjusted at sole discretion of the Board to account for any increase or diminution in value.

Merger or Asset Sale

In the event of our merger with or into another corporation or the sale of substantially all of our assets, the successor corporation (or its parent or subsidiary) will assume or substitute for equal value each outstanding Award. With respect to discretionary Awards which include performance-based Awards, the Committee may, in its sole discretion, fully accelerate such Awards in lieu of assumption or substitution. In such event, the Committee will notify all optionee's that their options under the Amended Plan will be fully exercisable for a period of thirty (30) days from the date of such notice and the option will terminate upon the expiration of such period.

With respect to automatic and performance-based grants, in the event the successor corporation does not agree to assume or substitute for such RSUs, each outstanding automatic RSU will become fully vested and exercisable, including as to shares that would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise.

Awards to be Granted to Certain Individuals and Groups

The number of discretionary Awards that an employee or consultant may receive under the Amended Plan is at the discretion of the Committee and therefore cannot be determined in advance. The following table sets forth the aggregate number of shares subject to automatic RSU grants under the Plan during the last fiscal year.

Name of Group	Number of Automatic Restricted Stock Units Granted	Average Per Share Price
All directors who are not executive officers, as a group	134,381	$11.72

Limited Transferability of Awards

Awards granted under the Amended Plan generally may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the applicable laws of descent and distribution. During the participant's lifetime, only the participant may exercise the Award. If the Committee makes an Award under the Amended Plan transferable, such Award will contain such additional terms and conditions as the Committee deems appropriate.

Federal Tax Aspects

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and Cypress of awards granted under the Plan. Tax consequences for any particular individual may be different.

Nonstatutory Stock Options. No taxable income is reportable when a nonstatutory stock option is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Incentive Stock Options. No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is similar to nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two (2) years after the grant date and more than one (1) year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

Restricted Stock/Restricted Stock Units. A participant will not have taxable income upon grant unless he or she elects to be taxed at that time (except no such election is available for restricted stock units). Instead, he or she will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the shares received minus any amount paid for the shares.

Tax Effect for Cypress. Cypress generally will be entitled to a tax deduction in connection with an Award made to U.S. employees, consultants and directors under the Amended Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to certain of our executive officers. Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed $1,000,000. However, Cypress can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the Amended Plan, setting limits on the number of Awards that any individual may receive, and for awards other than certain stock options, establishing performance criteria that must be met before the award actually will vest or be paid. The Amended Plan has been designed to permit the Committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting Cypress to continue to receive a federal income tax deduction in connection with such awards.

Amendment and Termination of the Amended Plan

The Board generally may amend, alter, suspend, or terminate the Amended Plan at any time, except that certain amendments may require stockholder approval or the consent of participants in the Amended Plan. Adding shares to the Amended Plan requires stockholder approval, except in the case of adjustments due to a stock split or similar change in capitalization effected without the receipt of consideration by us. Currently, the Plan is scheduled to expire on January 15, 2014.

Summary

We believe strongly that the approval of the Amended Plan is essential to our continued success. Awards such as those provided under the Amended Plan constitute an important incentive for our key employees and other service providers and help us to attract, retain and motivate people whose skills and performance are critical to our success. Our employees are our most valuable asset. We strongly believe that the Amended Plan is essential for us to compete for talent in the difficult labor markets in which we operate.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Information as of March 1, 2011 with respect to our compensation plans (including individual compensation arrangements) under which equity securities of Cypress are authorized for issuance, are aggregated in the table below as follows:

- all compensation plans previously approved by security holders; and
- all compensation plans not previously approved by security holders.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity Compensation Plans Approved by Security Holders	30.9[1]	$5.63[2]	15.8[3]
Equity Compensation Plans Not Approved by Security Holders	10.1	$5.88	-
Total	41.1	$5.71[2]	15.8

1. Includes 9.8 million shares of restricted stock and restricted stock units granted.
2. Excludes impact of 9.8 million shares of restricted stock units and restricted stock which have no exercise price.
3. Includes 11.1 million shares available for future issuance under Cypress's 1994 Amended Stock Option Plan. In addition, the amount includes 4.7 million shares available for future issuance under Cypress's employee stock purchase plan.

PROPOSAL FOUR

ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, enables our stockholders to vote to approve, on an advisory (non-binding) basis, the compensation of our Named Executive Officers as disclosed in this Proxy Statement in accordance with the SEC rules under Item 402 of Regulation S-K.

Our executive compensation programs are designed to attract, motivate, and retain our Named Executive Officers, who are critical to our success. Our executive compensation programs have played a material role in our ability to drive strong financial results and attract and retain a highly experienced, successful team to manage our company. Under these programs, our Named Executive Officers are rewarded for the achievement of specific annual, long-term and strategic goals, corporate goals, and the realization of increased stockholder value. Please read the "*Compensation Discussion and Analysis"* beginning on page 43 for additional details about our executive compensation programs, including information about the fiscal year 2010 compensation of our Named Executive Officers.

The Compensation Committee continually reviews the compensation programs for our Named Executive Officers to ensure they achieve the desired goals of aligning our executive compensation structure with our stockholders' interests and current market practices. Our executive team has successfully managed our company through the recent dramatic economic downturn. For the fiscal year ending January 2, 2011:

- we grew our revenues by over 31%;
- we achieved non-GAAP net income growth of 949%;
- our stock price increased by 76% for fiscal year 2010 and exceeded all major market indexes by a factor of 3x to 4x; and
- our stock performance has well exceeded all major market indexes for the last six years. Our Company is again poised to continue its long-standing tradition of excellence and delivering performance results for our stockholders, and our customers.

Our executive compensation program strikes the appropriate balance between utilizing responsible, measured pay practices and effectively incentivizing our executives to achieve long-term value creation for our stockholders. This balance is evidenced by the following:

- Our compensation programs are substantially tied to our key business objectives and the success of our stockholders;
- If the value we deliver to our stockholders declines, so does the compensation of our Named Executive Officers;
- We closely monitor the compensation programs and pay levels of executives from companies of similar size and complexity, so that we may ensure that our compensation programs are within the range of our peer group companies and market practices;
- We provide a significant part of executive compensation in performance-based incentives, including primarily performance-based restricted stock units and variable cash bonus;
- Payouts of performance-based restricted stock units are based on the achievement of a minimum financial performance metric and are capped at 100% of the share awards. If the minimum financial metric is not achieved, the shares are forfeited and are not earnable in the future;
- We respond to economic conditions appropriately, such as reducing base salaries and bonuses of our executive officers, including our Named Executive Officers as was done in 2008 and 2009;
- We have no employment, severance or golden parachute agreements with any of our Named Executive Officers and therefore, no excise tax gross-ups.

We are asking our stockholders to indicate their support for our Named Executive Officer compensation as described in this Proxy Statement. This proposal, commonly known as a "say-on-pay" proposal, gives our stockholders the opportunity to express their views on our Named Executive Officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we will ask our stockholders to vote "FOR" the following resolution at the Annual Meeting:

> "RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the Named Executive Officers, as disclosed in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2010 Summary Compensation Table and the other

related tables and disclosure pursuant to Item 402 of Regulation S-K of the Securities and Exchange Commission."

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation Committee or our Board. Our Board and our Compensation Committee value the opinions of our stockholders and to the extent there is any significant vote against the Named Executive Officer compensation as disclosed in this Proxy Statement, we will consider our stockholders' concerns and the Compensation Committee will evaluate whether any actions are necessary to address those concerns.

☑ **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SECURITIES AND EXCHANGE COMMISSION.**

PROPOSAL FIVE

ADVISORY VOTE ON THE FREQUENCY OF THE ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

Introduction

The Dodd-Frank Act also requires public companies to provide their stockholders with a non-binding vote to advise the company as to how often stockholders believe the company should conduct a stockholder advisory vote on executive compensation, which we refer to as "say-on-pay." In accordance with the SEC's rules, stockholders must have the ability to vote on one of four alternatives concerning how frequently the company should have a say-on-pay vote: every year, every two years, every three years or abstain from voting. We are providing this stockholder advisory vote in accordance with Section 14A of the Exchange Act and new Exchange Act Rule 14a-21(b), which the SEC issued on January 25, 2011 in order to implement the Dodd-Frank Act's requirement.

Our Board's Recommendation

Our Board recommends that you vote in favor of advising the company to conduct a say-on-pay vote every year, at each annual meeting of stockholders. Our Board values continuing, constructive feedback from our stockholders on executive compensation and other important corporate governance topics. The Board believes that an annual vote will continue to provide valuable feedback on executive compensation. The Board further believes that an annual vote makes the most sense for the Company because the Compensation Committee evaluates the compensation of our Named Executive Officers on an annual basis (as described in detail in the *Compensation Discussion & Analysis* section). In addition, our Board believes that an annual vote will foster strong communication from our stockholders to the Board and the Compensation Committee, which is responsible for setting executive compensation. An annual say-on-pay vote offers a strong mechanism for stockholders to provide ongoing input on how the Company compensates its Named Executive Officers. Similarly, it would provide regular input to the Board and the Compensation Committee about how stockholders view the Company's compensation practices and policies.

Advisory or Non-Binding Effect of Vote

Under the Dodd-Frank Act and the related SEC rules, this vote is an advisory or "non-binding" vote. The purpose of an advisory vote is to provide stockholders with a mechanism to provide input to the Board about certain issues like this. The Board is not required by law to act or otherwise implement the time period receiving the most votes cast. In fact, the Board is permitted to choose to hold a say-on-pay vote on a different schedule. However, the Board values our stockholders' opinions and will take into account the results of this vote in determining how often the Company should conduct a stockholder advisory vote on executive compensation.

How to Vote

You have four choices as to how to vote on this proposal. You may cast your vote on your preferred voting frequency by choosing the option of one year, two years, three years or abstain from voting when you vote in response to this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS AN ADVISORY VOTE FOR A FREQUENCY OF "ONE YEAR" FOR FUTURE NON-BINDING STOCKHOLDER VOTES ON COMPENSATION OF NAMED EXECUTIVE OFFICERS, AS DISCLOSED PURSUANT TO THE COMPENSATION DISCLOSURE RULES OF THE SECURITIES AND EXCHANGE COMMISSION.

CORPORATE GOVERNANCE

We continue to review our corporate governance policies and practices to ensure that they comply with the requirements or suggestions of various authorities in corporate governance and the best practices of other public companies. Our business, property and affairs are managed under the direction of our Board. Members of our Board are kept informed of our business through discussions with our chief executive officer and president, our chief financial officer, our executive officers, our general counsel, and other officers and employees, and by reviewing materials provided to them and participating in meetings of the Board and its committees.

Corporate Governance Changes in Fiscal Year 2010 and for Fiscal Year 2011

Because our Board is committed to strong and effective corporate governance, it regularly monitors our corporate governance policies and practices to ensure we meet or exceed the requirements of applicable laws, regulations and rules, and the NASDAQ listing standards. In 2010, the Board appointed J.D. Sherman as a member of our Board. Mr. Evert van de Ven is retiring from the Board effective May 12, 2011.

During fiscal year 2010 and for fiscal year 2011, our Board made substantial changes to our corporate governance policies and practices including:

- increasing to a Board of eight (8) directors, seven (7) of whom are independent; and
- recommending that an advisory vote on executive compensation be held annually (see Proposal 4); and

The changes made to our corporate governance polices and practices build upon our solid corporate governance structure, which is exemplified by:

- a strong independent chairman of the Board whose duties and responsibilities are set forth in our Bylaws;
- a Board that is up for election annually and has been for over 25 years;
- the charters of the Board's committees, which clearly establish the roles and responsibilities of each of the committees;
- Board committees that are comprised and chaired solely by independent directors;
- our non-employee and independent directors meeting regularly in executive session;
- a strong risk management program with specific responsibilities assigned to management, the Board, and the Board's committees;
- a director orientation and continuing education program;
- our clear Code of Business Conduct and Ethics;
- our Corporate Governance Guidelines;
- our limitation on the use of perquisites for directors and executive officers; and
- the Compensation Committee's engagement of an independent compensation consultant.

Additional information regarding the above aspects of our corporate governance and the changes made or proposed by our Board for fiscal years 2010 and 2011 is provided in this Proxy Statement in the sections entitled "*Board of Directors and Committees of the Board*" and "*Compensation Discussion and Analysis*."

Our Corporate Governance Guidelines cover, among other topics:

- director independence;
- Board structure and composition;
- Board member nomination and eligibility requirements;
- Board leadership and executive sessions;
- limitations on other Board and committee service;
- committees of the Board;

- director responsibilities;
- Board and committee resources, including access to officers and employees;
- director compensation;
- director orientation and ongoing education;
- succession planning; and
- Board and committee self evaluations.

The Corporate Governance Guidelines document is posted on our web site at http://files.shareholder.com/downloads/ABEA-37EQD4/813980998x0x331879/c8beb9c8-5706-4584-88a8-f866616b650c/2009_CORPORATE_GOVERNANCE_GUIDELINES.pdf.

The Code of Business Conduct and Ethics is posted at http://files.shareholder.com/downloads/ABEA-37EQD4/813980998x0x331880/61be26f8-18dc-48d8-bf64-d07f136669c7/2009_Rev_clean_Code_of_Business_Conduct_and_Ethics.pdf.

BOARD STRUCTURE

Determination of Independence

The Board has adopted the definition of "independence" as described under the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") Section 301, Rule 10A-3 under the Securities Exchange Act of 1934(also referred to as The "Exchange Act") and NASDAQ Rules 5605. In order to make a determination of independence of a director as required by our Corporate Governance Guidelines and the rules of the SEC, the Board determines whether a director or a director nominee has a material relationship with Cypress (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with Cypress). Each director or director nominee completed a questionnaire, with questions tailored to the rules of NASDAQ, as well as the SEC requirements for independence. On the basis of the questionnaires completed and returned by each director, the Board determined that each of Messrs. Albrecht, Benhamou, Carney, Long, McCranie, Sherman, and van den Hoek is independent as determined under our Corporate Governance Guidelines, the rules of the NASDAQ and the SEC. The Board determined that Mr. T.J. Rodgers, our president and chief executive officer, has a material relationship with Cypress by virtue of his employment and position at Cypress and, therefore, is not independent. Apart from Mr. Rodgers, no other director has a relationship with Cypress other than through his membership on the Board and its committees.

Executive Sessions

Executive sessions of independent directors are held before each regularly scheduled meeting of our Board and at other times as necessary and are chaired by the chairman of the Board. The Board's policy is to hold executive sessions without the presence of management, including the chief executive officer, who is the only non-independent director. Except for the Operations Committee, the committees of the Board also generally meet in executive session at the end of each committee meeting. Members of the Operations Committee provide feedback to management following their attendance at the Company's quarterly operations reviews.

Meeting Attendance

In fiscal year 2010, our Board held four (4) regularly scheduled meetings. Every director attended at least 75% of the number of Board meetings, and at least 75% of the meetings of the committees of the Board on which the director served. Our "non-management" (who are all independent) directors met four (4) times in executive sessions during regularly scheduled Board meetings in the 2010 fiscal year. Mr. Benhamou presided over all executive sessions of our directors. Directors are expected, but not required to attend the annual meetings of stockholders. All of our directors attended the 2010 Annual Meeting of Stockholders and are expected to attend the 2011 Annual Meeting.

Board Size and Membership

The Nominating and Corporate Governance Committee periodically assesses the appropriate size of the Board and whether any vacancies are expected due to retirement or otherwise. The Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating nominees for directorships, including requests to Board members and others for recommendations. Through the process of identification and evaluation, the Nominating and Corporate Governance Committee seeks to achieve a balance of experience, knowledge, integrity and capability on the Board.

Stockholders may recommend, with timely notice, individuals for the Nominating and Corporate Governance Committee to consider as potential director candidates by submitting their names and background to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California

95134. The Nominating and Corporate Governance Committee will consider a recommendation only if appropriate biographical information and background materials are provided on a timely basis (see "How and when may I submit proposals for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors for Cypress?" on page 6 hereof).

The qualifications of recommended director candidates will be reviewed by the Nominating and Corporate Governance Committee in accordance with the criteria set forth in our Corporate Governance Guidelines and SEC rules, whether or not a potential candidate was recommended by a security holder, the Board, management or other parties. These criteria include the candidate's skills, attributes, integrity, experience, commitment, diligence, conflicts of interest and the ability to act in the interest of all stockholders. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. Cypress believes that the skill set, backgrounds and qualifications of our directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow our Board to fulfill its responsibilities.

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate nominees includes meeting from time to time to evaluate biographical information and background material relating to potential candidates and if appropriate, conducting interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board.

Assuming that appropriate biographical and background material are provided for candidates recommended by stockholders, the Nominating and Corporate Governance Committee will evaluate nominees by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members.

The Board makes the final determination whether or not a stockholder-recommended candidate will be included as a director nominee for election in accordance with the criteria set forth in our Corporate Governance Guidelines. If the Board decides to nominate a stockholder-recommended candidate and recommends his or her election as a director by the stockholders, the name of the nominee will be included in Cypress's proxy statement and proxy card for the stockholders meeting at which his or her election is recommended.

Nomination Criteria and Board Diversity

In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, we believe that the skill set, backgrounds and qualifications of our directors, considered as a group, should provide a significant composite mix of diversity in experience, knowledge and abilities that will allow our Board to fulfill its responsibilities. Therefore, in recommending candidates for Board nomination, the Nominating and Corporate Governance Committee makes an assessment of each candidate, including candidates recommended by a stockholder, in light of the nomination criteria set forth in the Company's Corporate Governance Guidelines. This assessment includes the evaluation of skills, the individual's character and integrity, general business and semiconductor industry experience, direct experience in the management of a corporation that is a customer that buys from the semiconductor industry, leadership profile, strategic planning abilities and experience, aptitude in accounting or finance, expertise in domestic and international markets, industry knowledge, understanding of relevant technologies, communications and interpersonal skills, and ability and willingness to devote time as needed for Board services. The assessment is made in the context of the perceived needs of the Board from time to time.

Communications from Stockholders and Other Interested Parties

The Board will give appropriate attention to written communication on valid business issues that are submitted by stockholders and other interested parties, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters, the chairman of our Board, with the assistance of the corporate secretary and internal legal counsel, (1) is primarily responsible for monitoring communications from stockholders and other interested parties, and (2) provide copies or summaries of such communications to the other directors as the chairman considers appropriate. Communications will be forwarded to all directors if they relate to substantive matters and include suggestions or comments that the chairman of our Board considers to be important for the directors to know.

Stockholders and other interested parties who wish to send communications on any relevant business topic to the Board may do so by addressing such communication to the Chairman of the Board of Directors, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California, 95134 or sending an e-mail to CYBOD@cypress.com.

INDEPENDENT DIRECTOR CONTACT

Interested parties are able to make their concerns known to the non-management independent directors by electronic mail to CYBOD@cypress.com, or in writing addressed to the Chairman of the Board of Directors, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134.

BOARD LEADERSHIP STRUCTURE

Eric A. Benhamou serves as chairman of our Board of Directors. Our Board's general policy, as stated in our Corporate Governance Guidelines, is that separate persons should hold positions of chairman of the Board and chief executive officer to enhance the Board's oversight of management. Our leadership structure enhances accountability of our chief executive officer to the Board, balances power on our Board and encourages balanced decision making. We also separate the roles in recognition of the differences in roles. While the chief executive officer is responsible for the day-to-day leadership of the Company and the setting of strategic direction, the chairman of the Board provides guidance to the Board, sets the agenda for Board meetings and presides over the meetings of the full Board and the meetings of the Board's non-management directors. The Board chairman also provides performance feedback on behalf of the Board to our chief executive officer.

BOARD'S ROLE IN RISK MANAGEMENT OVERSIGHT

The Board implements its risk oversight responsibilities primarily through its various committees, which receive management briefings on the potentially significant risks that the Company faces and how the Company seeks to control risk where appropriate. The Board's four committees (Audit, Compensation, Nominating and Corporate Governance and Operations) oversee those risks that are most appropriate to their charters. For example, the Audit Committee oversees risks related to internal controls, financial reporting, fraud, insurance, treasury, ethics and compliance, and litigation. The Audit Committee also oversees the activities of the Internal Audit Department that independently assesses, audits and monitors risk throughout the Company. The Compensation Committee oversees risks related to employees, compensation and use of shareholder's equity, for example. The Nominating and Governance Committee oversees risks related to corporate governance, executive management and other related areas. The Corporate Operations Committee, through attending quarterly operations review meetings, oversees risks related to operations, supply chain and customers. The full Board reviews the risk-assessment activities of all committees. In more limited cases, such as with risks of significant new business concepts and substantial entry into new markets, risk oversight is addressed as part of the full Board's engagement with our chief executive officer and management. Board members also often discuss risk as a part of their review of the ongoing business, financial, and other activities of the Company. The Board also has overall responsibility for executive officer succession planning and reviews succession plans each year.

The Board's role in the Company's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, human resources, employment, and strategic risks. The full Board (or the appropriate committee in the case of risks that are under the purview of a particular committee) receives these reports from the appropriate risk owner within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a committee receives the report, the chairman of the relevant committee reports on the discussion to the full Board during the committee reports portion of the next Board meeting if deemed significant. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships.

RISK CONSIDERATIONS IN OUR COMPENSATION PROGRAMS

In early 2011, the Compensation Committee conducted a risk assessment of our compensation policies and practices for employees, including those related to executive compensation programs. As part of the risk assessment, the Compensation Committee reviewed our compensation programs for certain design features that have been identified by experts as having the potential to encourage excessive risk-taking, such as compensation mix overly weighted toward annual incentives and unreasonable goals or thresholds. The Compensation Committee determined that, for all employees, our compensation programs encourage our employees to take appropriate risks and encourage behaviors that enhance sustainable value creation in furtherance of the Company's business, but do not encourage excessive risk. The Compensation Committee believes that because we closely link our variable compensation with attaining performance objectives, we are encouraging our employees to make decisions that should result in positive short-term and long-term returns for our business and our stockholders without providing an incentive to take unnecessary risks. The Compensation Committee, with the assistance of Buck Consultants, LLC, intends to continue, on an on-going basis, a process of thoroughly reviewing our compensation policies and programs to ensure that our compensation programs and risk mitigation strategies continue to discourage imprudent risk-taking activities.

BOARD COMMITTEES

The Board has an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, and an Operations Committee. The membership and functions of each committee in 2010 are described in the table below:

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Operations Committee
W. Steve Albrecht	Chairman			
Eric A. Benhamou	Member	Chairman		
Lloyd Carney	Member	Member		
James R. Long		Member	Chairman	
J. Daniel McCranie[1]			Member	Member
Evert van de Ven[2]			Member	Chairman
J. Donald Sherman[3]	Member			
T.J. Rodgers				

The Audit Committee

The Audit Committee operates under a written charter adopted by our Board, and was established in accordance with Exchange Act Section 3(a)(58)(A). The charter of the Audit Committee is available on our web site at http://investors.cypress.com/documentdisplay.cfm?DocumentID=6355.

The Board has determined that all the members of the Audit Committee are independent as independence is defined under the rules the NASDAQ Marketplace Rule 5605. The Board determined that each member of the Audit Committee is financially literate and has accounting and/or related financial management expertise required under NASDAQ rules.

In fiscal year 2010, the Audit Committee initially consisted of Messrs. Albrecht, Benhamou, Carney, and McCranie, and later on of Messrs. Albrecht, Benhamou, Carney and Sherman, and met eight (8) times in fiscal year 2010 and each time met in executive session independently with management, our internal audit team and PricewaterhouseCoopers, our certified public accounting firm.

Our Board designated Mr. Albrecht as the “audit committee financial expert” in accordance with the requirements of the SEC and NASDAQ rules.

The responsibilities of our Audit Committee and its activities during fiscal year 2010 are described in its charter and the Report of the Audit Committee on pages 38 of this Proxy Statement.

In discharging its duties, the Audit Committee:

- reviews and approves the scope of the annual audit and the independent public accounting firm’s fees;
- assists the Board in the oversight of the Company’s compliance with legal and regulatory requirements;
- meets independently with our independent registered public accounting firm, internal auditors, and our senior management;
- oversees and reviews the general scope of our accounting, financial reporting, annual audit and matters relating to internal control systems, as well as the results of the annual audit and review of interim financial statements, auditor performance, qualifications and independence issues, and the adequacy of the Audit Committee charter;
- prepares an Audit Committee report as required by the SEC to be included in the Company’s annual proxy statement;
- pre-approves all fees proposed by or paid to our independent registered public accounting firm;

---

1 Mr. McCranie was a member of the Audit Committee for part of 2010. He was moved from the Audit Committee to the Nominating and Governance Committee in August 2010.

2 Mr. van de Van retires from the Board in May, 2011.

3 Mr. Sherman was appointed to the Board in May, 2010 and was appointed to the Audit Committee in August 2010.

- reviews and provides input to the risk assessment processes in the Company, which will form the basis of the annual audit plan;
- oversees the implementation of the whistleblower policy; and then
- reviews SEC filings, earnings releases and other forms of significant investor communications.

The Compensation Committee

The Compensation Committee consists of Messrs. Benhamou, Carney, and Long. The Board has determined that the members of the Compensation Committee are independent as defined under NASDAQ rules. The Compensation Committee assists the Board with discharging its duties with respect to the formulation, implementation, review and modification of the compensation of our directors, officers and senior executives, and the preparation of the annual report on executive compensation for inclusion in our proxy statement.

The Compensation Committee, through delegation by the Board, has overall responsibility for the following:

- establishing the specific performance objectives for our chief executive officer and subsequently evaluating his compensation based on achievement of those objectives;
- approval of performance objectives for our executive officers;
- formulating, implementing, reviewing, and modifying the compensation of the Company's directors and executive officers;
- recommending to the Board for approval the Company's compensation plans, policies and programs;
- reviewing and approving the Company's Compensation Discussion and Analysis ("CD&A") for inclusion in the proxy statement;
- reviewing, revising in its discretion, and approving the annual merit and stock budgets for focal salary increases and equity grant awards for all eligible employees;
- reviewing the annual benefit changes made by the Company with respect to its employees;
- providing feedback to the chief executive officer on his performance;
- overseeing the stock plans of the Company's subsidiary companies;
- overseeing and monitoring executive succession planning for the Company;
- periodic risk analysis of the Company's compensation policies and programs.

In discharging its duties, the Compensation Committee retains the services of compensation consultants in order to have independent, expert perspectives on matters related to executive compensation, Company and executive performance, equity plans and other issues. The Compensation Committee has the sole authority to determine the scope of services for these consultants and may terminate the consultants' services at any time. The fees of these consultants are paid by the Company. In 2010, the Compensation Committee retained the services of Buck Consultants, LLC for various compensation-related services, including comparing our director compensation with the compensation of directors of our peer group companies.

No officer of the Company was present during discussions or deliberations regarding that officer's own compensation. Additionally, the Compensation Committee sometimes meets in executive session with its independent consultant to discuss various matters and formulate certain final decisions, including those regarding the performance and compensation of the chief executive officer.

The Compensation Committee held seven (7) meetings during our 2010 fiscal year. The Report of the Compensation Committee is contained in this Proxy Statement. The charter for our Compensation Committee is posted on our web site at http://investors.cypress.com/documentdisplay.cfm?DocumentID=6356.

The Nominating and Corporate Governance Committee

In 2010, the Nominating and Corporate Governance Committee consisted of Messrs. Long, van de Ven and McCranie, who joined in the later part of the year. Mr. van de Ven is resigning from our Board effective May 12, 2011. The Board determined that the members of the Committee are independent as defined under the rules of NASDAQ. The purpose of the Nominating and Corporate Governance Committee is to:

- identify and evaluate individuals qualified to become Board members;
- recommend to the Board the persons to be nominated by the Board for election as directors at the annual meeting of stockholders, including any nomination of qualified individuals properly submitted by stockholders of the Company;
- develop, maintain and recommend to the Board a set of corporate governance principles;
- oversee the annual self-evaluation process of the Board and other Board committees;
- ensure that stockholder proposals, when approved, are implemented as approved;
- make recommendations to the Board on Board and Board committee membership; and
- oversee the director continuing education program.

The Nominating and Corporate Governance Committee is authorized to retain advisers and consultants and to compensate them for their services. The Nominating and Corporate Governance Committee did not retain any such advisers or consultants during fiscal year 2010.

The Nominating and Corporate Governance Committee held three (3) meetings during fiscal year 2010. The charter for our Nominating and Corporate Governance Committee is posted on our web site at http://investors.cypress.com/documentdisplay.cfm?DocumentID=6357.

The Operations Committee

In 2010, the Operations Committee consisted of Messrs. McCranie and van de Ven. Mr. van de Ven is resigning from the Board effective May 12, 2011. The purpose of the Operations Committee is to:

- review strategic proposals and provide advice and counsel to Cypress regarding daily business operations; and
- present to the management of the company and the Board an independent assessment of Cypress's business operations and practices.

To discharge their responsibilities, members of the Operations Committee attend various quarterly operations reviews and provide advice and counsel to the Company's management. The charter of the Operations Committee is posted on our web site at http://investors.cypress.com/documentdisplay.cfm?DocumentID=6358.

Printed copies of the Corporate Governance Guidelines document, the Code of Business Conduct and Ethics, and the charters of the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Operations Committee are also available to any stockholder upon written request to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

COMPENSATION OF DIRECTORS

The table below shows the fees we paid to our Board members in 2010.

Position	**2010 Annual Fees**[1]
Non-employee director retainer	$50,000
Board chairman	$30,000
Audit Committee chairman	$20,000
Audit Committee member	$15,000
Compensation Committee chairman	$15,000
Compensation Committee member	$10,000
Nominating and Corporate Governance Committee chairman	$5,000
Nominating and Corporate Governance Committee member	$5,000
Operations Committee	$2,500 per attendance to the Company's quarterly operations meetings

Non-Employee Director Equity Compensation

Upon their initial appointment to the Board, each non-management director is granted restricted stock units equivalent to $525,000 divided by the trading price of one share of common stock on the date of the acceptance of the director's appointment, rounded to the nearest whole share ("Initial Grant"). The Initial Grant vests annually over a period of three (3) years from the date of grant.

If re-elected at the Company's annual meeting each non-employee director automatically receives additional, fully-vested restricted stock units under the 1994 Stock Plan, that is equivalent to $175,000 divided by the trading price of one share of common stock on the date of the Company's regularly scheduled annual stockholders meeting, rounded down to the nearest whole share ("Annual Grant"). If the re-elected incumbent director was appointed to the Board after the last annual stockholders meeting, then the Annual Grant is pro-rated based on the number of months from the date of the Initial Grant to the date of his or her re-election.

Non-Employee Director Stock Ownership Requirement

The Board has established Non-Employee Director Ownership Requirement pursuant to which non-employee directors are required to own 20,000 shares of common stock of the Company. Incumbent directors are expected to meet the ownership requirement within three years of establishment of the ownership requirement and new directors are required to meet the requirement within three years of their appointment. Except for Mr. Sherman, all our incumbent directors meet the requirement including Mr. T.J. Rodgers, our chief executive officer, who is an employee director. Mr. Sherman became a director in 2010 and is expected to meet the requirement in 2013.

---

[1] Except for the Operations Committee fees which are paid per meeting

DIRECTOR COMPENSATION

Fiscal Year Ended January 2, 2010

Name	Year	Fees Earned or Paid in Cash ($)	Stock Awards ($)[1]	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
W. Steve Albrecht[3]	2010	81,250	174,991	N/A	N/A	N/A	0	256,241
Eric A. Benhamou[4]	2010	123,750	174,991	N/A	N/A	N/A	0	298,741
Lloyd Carney[5]	2010	75,000	174,991	N/A	N/A	N/A	0	249,991
James R. Long[6]	2010	70,000	174,991	N/A	N/A	N/A	0	244,991
J. Daniel McCranie[7]	2010	101,185	174,991	N/A	N/A	N/A	0	275,176
J. Donald Sherman[8]	2010	44,723	524,997[8]	N/A	N/A	N/A	0	569,720
Evert van de Ven[9]	2010	100,000	174,991	N/A	N/A	N/A	0	274,991

1. Amounts shown reflect the grant date fair value of the restricted stock units awarded to our directors in fiscal year 2010. Each non-management director was entitled to receive the equivalent of $175,000, rounded down to the nearest whole share, based on the Company's stock closing price of $11.72 on the grant date.
2. No stock option awards were granted to our directors in fiscal year 2010.
3. Amount includes $50,000, Board retainer fee, and $31,250 Audit Committee chairman and member fee.
4. Amount includes $50,000 Board retainer fee, $30,000 for Board chairmanship, $15,000 Audit Committee member fee, and $28,750 Compensation Committee chairman and member fee.
5. Amount includes $50,000 Board retainer fee, $15,000 Audit Committee member fee and $10,000 Compensation Committee member fee.
6. Amount includes $50,000 Board retainer fee, $10,000 Compensation Committee member fee and $10,000 Nominating and Corporate Governance Committee member fee.
7. Amount includes $50,000 Board retainer fee, $7,777 Audit Committee member fee, $2,408 Nominating and Corporate Committee member fee and $40,000 for attendance at our operations review meetings as member of the Operations Committee.
8. Amount includes $37,500 Board retainer fee, and $7,223 Audit Committee member fee. The amount reflected in the Stock Awards column is the grant date FAS 123 charge taken by the Company for 2011 stock award to Mr. Sherman. Consistent with the Company's 1994 Stock Plan, the restricted stock units awarded to Mr. Sherman will vest over three years, commencing in 2011; therefore, no shares were released to Mr. Sherman in 2010.
9. Amount includes $50,000 Board retainer fee, $5,000 Nominating and Corporate Committee member fee and $45,000 for attendance at our operations review meetings as member of the Operations Committee.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of Cypress's Board of Directors serves as the representative of the Board of Directors with respect to its oversight of:

- Cypress's accounting and financial reporting processes and the audit of Cypress's financial statements;
- the integrity of Cypress's financial statements;
- Cypress's internal controls and the audit of management's assessment of the effectiveness of internal control over financial reporting;
- Cypress's compliance with legal and regulatory requirements;
- the independent registered public accounting firm's appointment, qualifications and independence; and
- the performance of Cypress's internal audit function.

The Audit Committee also reviews the performance of Cypress's independent registered public accounting firm, PricewaterhouseCoopers LLP, in the annual audit of financial statements and internal control over financial reporting and in assignments unrelated to the audit, and reviews the independent registered public accounting firm's fees.

The Audit Committee provides the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board. The Audit Committee reviews the Company's financial disclosures and meets privately, outside the presence of our management, with our independent registered public accounting firm and our internal auditors to discuss our internal accounting control policies and procedures. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in our Annual Report on Form 10-K for our fiscal year ended January 2, 2011, with management including a discussion of the quality and substance of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. In addition, the Audit Committee reviewed the results of management's assessment of the effectiveness of Cypress's internal control over financial reporting as of January 2, 2011. The Audit Committee reports on these meetings to our Board of Directors.

The charter of the Audit Committee is available at our web site at:

http://investors.cypress.com/documentdisplay.cfm?DocumentID=6355

Cypress's management has primary responsibility for preparing Cypress's financial statements and for its financial reporting process. In addition, management is responsible for establishing and maintaining adequate internal control over financial reporting. Cypress's independent registered public accounting firm is responsible for expressing an opinion on the conformity of Cypress's financial statements to generally accepted accounting principles and on the effectiveness of Cypress's internal control over financial reporting.

The Audit Committee hereby reports as follows:

(1) The Audit Committee has reviewed and discussed the audited financial statements for fiscal year 2010 with Cypress's management.

(2) The Audit Committee has discussed with PricewaterhouseCoopers LLP, the independent registered public accounting firm for Cypress, the matters required to be discussed by the Statement on Audit Standards No. 61, as amended (AICPA, *Professional* Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

(3) The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP for Cypress as required by applicable requirements of the Public Company Accounting Oversight Board regarding PricewaterhouseCoopers LLP's communications with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers LLP its independence.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to Cypress's Board of Directors and the Board approved, that the Company's audited financial statements be included in Cypress's Annual Report on Form 10-K for the fiscal year ended January 2, 2011 for filing with the SEC. The Audit Committee also recommended the reappointment of PricewaterhouseCoopers LLP as Cypress's independent registered public accounting firm for fiscal year 2011.

Each member of the Audit Committee is independent as defined under the NASDAQ listing standards.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

W. Steve Albrecht, Chairman
Eric A. Benhamou
Lloyd Carney
J. Donald Sherman

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of our common stock as of the Record Date (except as described below) by:

- each of our directors;
- our chief executive officer, our chief financial officer and each of the three other most highly compensated individuals who served as our executive officers at fiscal year-end (the "Named Executive Officers");
- all individuals who served as directors or executive officers at fiscal year-end as a group; and
- each person (including any "group" as that term is used in Section 13(d)(3) of the Exchange Act of 1934, as amended) who is known by us to own beneficially more than 5% of our common stock.

Directors, Officers and 5% Stockholders	**Shares Beneficially Owned**	
Directors		**Percent[1]**
T.J. Rodgers[2]	12,530,402	7.19
W. Steve Albrecht[3]	170,211	*
Eric A. Benhamou[4]	272,381	*
Lloyd Carney[5]	231,565	*
James R. Long[6]	257,479	*
J. Daniel McCranie[7]	44,625	*
J. D Sherman[8]	14,931	*
Evert van de Ven[9]	104,981	*
		*
Named Executive Officers		
Brad W. Buss[10]	1,252,460	*
Paul Keswick[11]	879,447	*
Christopher A. Seams[12]	1,700,511	*
Norman P. Taffe[13]	687,850	*
All directors and executive officers at fiscal year-end as a group[14]	18,834,270	11.03
5% Stockholders		
FMR LLC[15] Edward C. Johnson 82 Devonshire Street Boston, Massachusetts 02109	24,877,921	14.57
BlackRock, Inc.[16] 40 East 52nd Street New York, New York 10022	12,675,399	7.42
The Bank of New York Mellon Corporation[17] One Wall Steet, 31st Floor, New York, New York 10286	8,556,404	5.01
T.J. Rodgers[18] 198 Champion Court San Jose, California 95134	12,989,431	7.61

* Less than 1%. See footnotes on the next page.

1. The total number of shares outstanding as of the Record Date was 174,384,675. The percentage of ownership for each of our Named Executive Officers and directors is based on the number of shares outstanding as of the Record Date. The shares outstanding for our directors do not include the annual grant that they will receive on May 13, 2011 because we do not know the exact number of shares they will receive. On May 13, our non-employee directors will receive fully vested shares of our common stock equivalent to $175,000 calculated at the closing price of our common stock on May 13, 2011, rounded down to the nearest whole share. The percentage for all directors and executive officers (as a group) is based on the number of shares outstanding as of 2010 fiscal year end; and the percentage reflected for entities with 5% ownership is based on the applicable form 13G or 13D filed with the SEC.

2. Includes 5,668,113 shares of common stock held by Mr. Rodgers and options to purchase 6,150,894 shares of common stock, which are exercisable within 60 days of the Record Date. Also includes 52,160 shares of common stock held indirectly. Also includes 659,235 unvested restricted stock issued to Mr. Rodgers in exchange for the performance-based restricted stock units which he tendered in connection with the Company's RSU Exchange Offer in 2008 in connection with the Spin-Off of SunPower Corporation. The shares of restricted stock will vest over the next fiscal year subject to achieving performance milestones. The shares of restricted stock received by Mr. Rodgers are subject to the same performance vesting conditions as the tendered restricted stock units, adjusted to reflect the effect of the SunPower Spin-Off.

3. Represents 61,711 shares of common stock held directly by Mr. Albrecht, beneficial ownership of 16,482 restricted stock units that will vest within 60 days of the Record Date and options to purchase 92,018 shares of common stock, which are exercisable within 60 days of the Record Date.

4. Represents 91,091 shares of common stock held directly by Mr. Benhamou, beneficial ownership of 16,482 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 164,808 shares of common stock, which are exercisable within 60 days of the Record Date.

5. Represents 56,411 shares of common stock held directly by Mr. Carney, beneficial ownership of 16,482 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 158,672 shares of common stock by Mr. Carney, which are exercisable within 60 days of the Record Date.

6. Represents 83,391 shares of common stock held directly by Mr. Long, beneficial ownership of 16,482 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 157,606 shares of common stock, which are exercisable within 60 days of the Record Date.

7. Represents 22,649 shares of common stock held directly by Mr. McCranie, beneficial ownership of 16,482 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 5,494 shares of common stock, which are exercisable within 60 days of the Record Date.

8. Represents 0 shares of common stock held directly by Mr. J. D. Sherman, beneficial ownership of 14,931 restricted stock units that will vest within 60 days of the Record Date.

9. Represents 77,611 shares of common stock held directly by Mr. van de Ven, beneficial ownership of 16,482 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 10,888 shares of common stock, which are exercisable within 60 days of the Record Date.

10. Represents 633,200 shares of common stock held directly by Mr. Buss, and options to purchase 619,260 shares of common stock, which are exercisable within 60 days of the Record Date.

11. Represents 463,306 shares of common stock directly held by Mr. Keswick, and options to purchase 416,141 shares of common stock, which are exercisable within 60 days of the Record Date.

12. Includes 554,480 shares of common stock held directly by Mr. Seams. Also includes options to purchase 1,146,031 shares of common stock, which are exercisable within 60 days of the Record Date.

13. Includes 230,162 shares of common stock held directly by Mr. Taffe. Also includes options to purchase 457,688 shares of common stock, which are exercisable within 60 days of the Record Date.

14. Includes 6,701,355 shares of common stock held directly or indirectly by our directors, executive officers, and their family members. Also includes options to purchase 10,814,445 shares of common stock exercisable as of January 2, 2011, by our directors, executive officers, and their family members and 1,318,470 unvested restricted stock issued to Mr. Rodgers in exchange for the performance-based restricted stock units which he tendered in connection with the Company's RSU Exchange Offer in 2008 in connection with the Spin-Off of

SunPower Corporation. Of this amount, 659,235 shares earned in 2010 were released in February 24, 2011 upon approval by the Compensation Committee of the Board that the required performance metrics were achieved. The remaining shares of restricted stock will vest over the next two fiscal years subject to performance. The shares of restricted stock received by Mr. Rodgers are subject to the same performance vesting conditions as the tendered restricted stock units, adjusted to reflect the effect of the SunPower Spin-Off.

15. The ownership information set forth in the table is based on information contained in a statement on Schedule 13G/A filed on February 14, 2011, with the SEC by FMR LLC. FMR LLC has sole power to vote or direct the vote of 264,245 shares and sole dispositive power with respect to 24,877,921 shares or common stock.

16. The ownership information set forth in the table is based on information contained in a statement on Schedule 13G/A filed on February 4, 2011, with the SEC by BlackRock, Inc. has sole voting and sole dispositive power with respect to 12,675,399 shares.

17. The ownership information set forth in the table is based on information contained in a statement on Schedule 13G filed on February 3, 2011, with the SEC by The Bank of New York Mellon Corporation. The Bank of New York Mellon Corporation has sole voting power with respect to 7,585,307 shares, shared voting power with respect to 2,950 shares, sole dispositive power with respect to 8,421,984 shares and shared dispositive power with respect to 14,680 shares.

18. The ownership information set forth in the table is based on information contained in a statement on Schedule 13D/A filed on February 16, 2011, with the SEC by Mr. Rodgers. Mr. Rodgers has shared voting and shared dispositive power with respect to 90,660 shares, sole voting and sole dispositive power with respect to 12,898,771 shares.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis ("CD&A")

This section describes the compensation decisions and programs for our chief executive officer, our chief financial officer and our three most highly compensated executive officers employed at the end of fiscal year 2010. These executives are referred to in this section as our Named Executive Officers or NEOs. Our Named Executive Officers for fiscal year 2010 were:

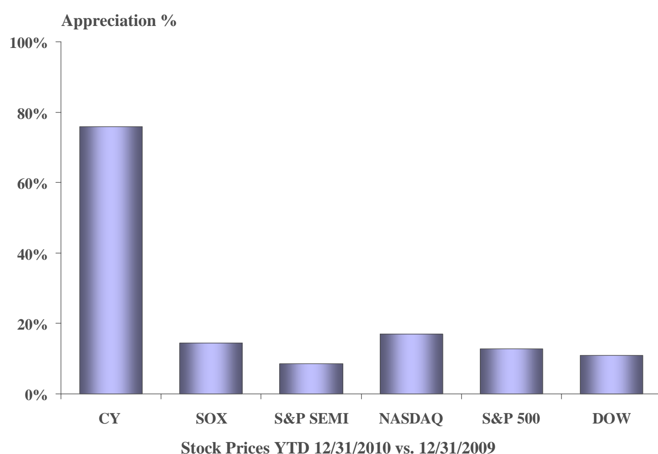
- T.J. Rodgers - President and Chief Executive Officer
- Brad Buss - Chief Financial Officer and Executive Vice President of Finance and Administration
- Paul Keswick - Executive Vice President New Product Development
- Christopher Seams - Executive Vice President Sales and Marketing Operations; and
- Norman Taffe - Executive Vice President Consumer and Computation Division

2010 Business Summary

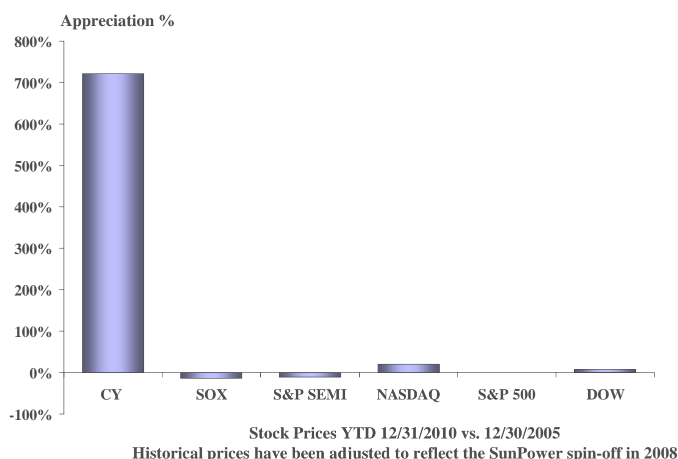
Fiscal 2010 was a very successful year for the Company and its stockholders. The Company took very decisive actions during the economic downturn in 2009 coupled with strong execution of its new product strategy that allowed us to have a very successful 2010 and a strong start in 2011. Some of the major highlights are as follows:

- The stock price performance continued to remain very strong and returned 76% to our stockholders in calendar year 2010 and once again out-performed all major indexes by a wide margin. On a five year basis our performance has even been better.

2010 Stock Appreciation



5 Year Stock Appreciation



Stock Prices YTD 12/31/2010 vs. 12/30/2005
Historical prices have been adjusted to reflect the SunPower spin-off in 2008

- This is the 6th year in a row that the Cypress stock performance has outperformed the major indexes we benchmark against: SOX, S&P Semi, NASDAQ, S&P 500 and DOW
- Since the September 2008 $2.6 billion Spin-Off of SunPower Corporation to our stockholders Cypress's common stock has appreciated by 256%
- Revenue increased 31% year over year
- Gross margin percent increased 15% year over year
- Operating expense as a percentage of sales decreased 17% year over year
- Net income increased 150% year over year on a GAAP basis and 949% on a non-GAAP basis
- Earnings per share increased 139% year over year on a GAAP basis and 840% on a non-GAAP basis
- Cash flow from operations increased 194% year over year
- The Board approved a new $600 million stock repurchase program
- During fiscal 2010 we repurchased 11.9 million shares and returned $148 million in cash to stockholders

Description of Key Terms Used in this Section

This section discusses the principles underlying our policies and decisions concerning the compensation of our Named Executive Officers. In this section, we describe the manner and context in which compensation is awarded to and earned by our executive officers and provide perspective on the tables and narratives that follow. In this CD&A section, the terms "we," "our," and "us" refer to management, the Company and sometimes, as applicable, the Compensation Committee ("Committee") of the Company's Board of Directors (the "Board").

Critical Success Factors ("CSFs"): CSFs are measurable quarterly and annual goals that, with the exception of our chief executive officer, are identified by our executive officers and reviewed, modified as appropriate, and approved by our chief executive officer in advance of each review period. Our chief executive officer's CSFs are submitted to, reviewed, modified as appropriate, and approved by the Board. CSFs for each period are scored on a scale of 0 to 100%, with each CSF representing a specific point value based on its importance to the Company and/or its level of difficulty. Specific scoring parameters that are used to determine whether the CSF has been achieved are also identified in advance in writing. At the end of each fiscal quarter, or fiscal year, as applicable, our executive officers "score" their CSFs based on the scoring parameters previously established. This score is reviewed, adjusted if necessary, and approved by our chief executive officer. Our chief executive officer's score is reviewed, adjusted if necessary, and approved by the Committee. The specific CSFs designated for each executive officer often vary from quarter to quarter, and may include Company metrics, divisional metrics and individual performance metrics.

The cash bonus plans in which our Named Executive Officers participate (KEBP and PBP) are subject to the Company's attainment of performance milestones established by the Committee. In 2010, the Committee established performance milestones for both plans based on a percentage of the Company's non-generally accepted accounting

principles profit before taxes ("non-GAAP PBT%") (which excludes, among other things, certain items such as stock-based compensation, acquisition-related expenses, impairments to goodwill, gains or losses on divestitures, investment-related gains and losses, restructuring costs, minority interests and related tax effects). Even when the Company is profitable and non-GAAP PBT% is high, our executive officers' annual earnings under KEBP are capped at 200% of each executive officer's target bonus. Both plans are described below.

Key Employee Bonus Plan ("KEBP"): Eligible senior and otherwise high-performing employees, including our Named Executive Officers, except our chief executive officer, participate in KEBP. KEBP can pay out quarterly and annually and is a key part of our variable compensation structure. The objective of KEBP is to provide variable cash incentives to eligible participants. Each KEBP participant is placed at an incentive level, which determines the percentage of that individual's base salary he or she is eligible to earn over the course of the year. In 2010, the Committee placed our Named Executive Officers who are KEBP participants at the 80% of base salary target incentive level which has not changed in years. Accordingly, a significant portion of our participating Named Executive Officers' overall cash compensation is at risk and will only be paid out in connection with high performance. Our chief executive officer is not a KEBP participant, and participates instead in the PBP. Commencing in 2010, KEBP participants no longer participate in the PPSP.

In 2010, the Committee established non-GAAP PBT% as the KEBP quarterly and annual performance metric. The Committee changed the KEBP performance metric from non-GAAP EPS, which it used in the prior year, in order to better align our variable cash compensation with the overall 2010 focus of the Company, which was to improve profitability. In 2010, for each performance period, KEBP was only paid out if the Company's non-GAAP PBT% was achieved at a minimum specified target. Actual 2010 KEBP payouts were dependent on the percentage by which non-GAAP PBT% exceeded the threshold payment trigger. There was no KEBP payout if the Company's non-GAAP PBT% was achieved below the threshold level. When the threshold level was achieved, the payout to our Named Executive Officers ranged from 50% to 156% of the target level of 80% of base salary. Thus, the maximum KEBP payout was 125% of the Named Executive Officer's base salary.

If our chief executive officer or the participant's executive vice president scores less than 65% on their CSFs, then the earned payout for the KEBP participant is reduced to zero, regardless of the individual's CSF achievement. If our chief executive officer or the KEBP participant's executive vice president scores from 65%–79%, then he or she will be eligible to earn 50% of what he or she would otherwise be entitled to and if our chief executive officer and such executive vice president scores 80% or above on their CSFs, then the KEBP participant will be eligible to earn up to 100% of their available KEBP payout depending on their CSF score.

The principles above are embedded in the following KEBP formula established by the Committee, which reflects how each bonus payment is determined:

$$\textbf{Annual Base Pay} \times \frac{\textbf{Incentive Level\%}}{\textbf{5}} \times \textbf{Financial Performance Metric \% Achievement} \times \textbf{Payment Range} \times \textbf{CSF Score} \times \textbf{EO Factor}$$

To be eligible for a KEBP payment, the KEBP participant must still be employed by the Company on the payment date. Quarterly payouts under the KEBP are made in the quarter following the measuring period, and the payout for the annual target is made within the first quarter following the applicable year. EO Factor represents the impact of the executive officer's CSF score on the bonus payout to KEBP participants who report to or are part of the executive officer's organization.

Performance Bonus Plan ("PBP"): The PBP was designed to maintain the corporate tax deduction under Internal Revenue Code Section 162(m) for certain variable cash compensation paid to an executive officer to the extent such compensation exceeds $1 million in any one (1) year. Participants are executive officers whose target total cash compensation in the applicable fiscal year exceeds $1 million. Our chief executive officer was the only participant under the PBP in fiscal year 2010, and is currently the only participant. A PBP participant is not eligible to participate in the KEBP.

Under the PBP, participants are eligible to receive cash payments based upon the attainment and certification of certain objective performance criteria established by the Committee. The performance measures for any performance period are one or more objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, product line, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, in

each case as specified by the Committee. Financial metrics may be determined in accordance with U.S. generally accepted accounting principles ("GAAP"), in accordance with International Accounting Standards Board ("IASB") principles or may exclude any items otherwise includable under GAAP or IASB Principles. Our Committee retains the discretion to reduce or eliminate any PBP award that would otherwise be payable. Therefore, even where the Company's goal has been achieved, the actual payout is subject to discretionary reduction based on the participant's CSF score for the period. The PBP, like KEBP, has quarterly and annual components.

Performance-based Restricted Stock Units ("PARS"): As part of our retention strategy for certain key positions needed to meet our Company's business objectives as the Company entered a multi-year refocus of its core semiconductor business and to provide substantial incentive to increase financial, operational and strategic results. We awarded performance-based restricted stock units to our executive officers and certain other key positions in the Company. The PARS may be earned ratably over a period of five (5) years, subject to achieving milestones established by the Committee each year, and might result in total compensation packages that are higher than targeted market positions if all performance-related milestones were achieved. None of our executive officers were eligible for any standard additional grants until 2010, except for our chief executive officer, Mr. Rodgers, who may be granted discretionary awards by the Committee. In 2010, none of our executive officers, including Mr. Rodgers, was granted any additional standard awards.

Spin-Off: On September 28, 2008, we distributed our shares of SunPower Corporation class B common stock to our stockholders (the "Spin-Off"). Cypress employees, consultants and non-employee members of the Board holding Cypress options and restricted stock units did not receive any SunPower shares in respect of their options and restricted stock units.

Spin-Off Ratio: Outstanding equity award (vested and unvested, including stock options, restricted stock and restricted stock units) and the remaining share pools under our equity plans were multiplied by 4.12022 (the "Spin-Off Ratio") to reflect the change in market value of the Company's common stock following the Spin-Off. The per share exercise price of outstanding Cypress stock options was divided by the Spin-Off Ratio for the same reason.

Compensation Philosophy and Objectives

The Committee's philosophy is to target total Named Executive Officer compensation at approximately the median (or 50th percentile) range among comparator group companies (based on the Company's performance meeting its annual operating plan). The Committee's general policy is to pay approximately median base salary, but to place more emphasis on performance-based compensation (cash and equity) and how it is earned, such that a large percentage of our Named Executive Officer compensation is at risk. Therefore, if total compensation is adjusted for the risks and aggressiveness of our goals, our executive officers are not paid above our targeted median percentile when compared with our peer companies.

Our executive officers earn their variable, performance-based compensation under our PARS, PBP and KEBP programs. The performance targets under these programs are aggressive and pre-determined both at the corporate level, through corporate goals and at a personal level through CSF goals set for the applicable period. The payout may be robust or meager depending on the level of achievement of the goals. If the goals are achieved at a high level, the total compensation for our Named Executive Officers could approximate the 75th percentile or more of the total compensation for similar positions in our peer group companies. On the contrary, if the performance targets are not achieved under PARS, PBP and KEBP, the total compensation for our Named Executive Officers is significantly diminished.

The compensation programs for our executives are designed to achieve the following objectives:

Attract and Retain Top Talent — to compete effectively for the highest quality of people who will determine our long-term success. We have structured our executive compensation program to be competitive with compensation paid by companies in the same market for executive talent.

Pay-for-Performance — to align executive compensation with Company, business unit and individual performance on both a short-term and long-term basis. Approximately 80% of our NEOs' target total direct compensation is in the form of variable compensation, comprised of quarterly and annual incentive cash bonuses and performance restricted stock units (RSUs), which aligns executive compensation with shareholder interests by tying a significant majority of total direct compensation to achieving performance goals. Both our variable cash and equity incentive awards are structured around very stringent and aggressive goals and by design are very rewarding when the goals are achieved and if not, no payout is earned.

Our cash compensation programs are intentionally designed to motivate our executive officers to achieve targeted operational and financial results for the Company, such that our executive officers are rewarded when our Company performs well. In fiscal quarters and years when the Company does not perform well, payouts are not made under the plans.

Our equity compensation is designed to reward our executive officers for achieving and exceeding short-term and long-term goals for the Company, and to enhance retention. Our PARS program is linked directly to the Company's achievement of certain targets, such that if a performance target is achieved, our executive officers are eligible to earn their PARS associated with such target, and if not, the shares are forfeited and cannot be earned in the future by our executive officers.

We generally maintain an annual focal review process to determine employee (including our executive officers) compensation. By using a ranking system in the annual focal review, we reinforce the direct and meaningful link between individual performance and rewards. Therefore, the higher an executive officer is ranked, the more likely they will receive a greater percentage increase in both equity and cash compensation.

In fiscal 2010, at least 80% of each of our Named Executive Officer's target total direct compensation was at risk in the form of variable compensation.

The Role of the Compensation Committee

The Committee:

- establishes the performance objectives for our chief executive officer and other Named Executive Officers and evaluates and adjusts their compensation based on achievement of those objectives;
- formulates, approves, reviews and modifies the compensation of the Company's directors and executive officers;
- oversees the administration of the Company's compensation plans;
- recommends to the Board for approval the Company's compensation plans, policies and programs;
- reviews, revises in its discretion, and approves the annual merit and stock budgets for focal salary increases and equity grant awards for all eligible employees;
- reviews and revises in its discretion the annual benefit changes made by the Company with respect to its employees;
- oversees equity plans of the Company's subsidiaries; and
- oversees annual risk analysis of our compensation policies and programs.

The Role of Consultants Retained by the Compensation Committee

Buck Consultants, LLC, an independent compensation consulting firm is engaged as a consultant by the Committee, reports directly to the Committee, and assists the Committee in determining the appropriate executive compensation for our Named Executive Officers. This is done, in part, by comparing the current salary, bonus, and equity awards of our Named Executive Officers to comparable positions at peer group companies.

The Role of Executive Officers in Determining Executive Compensation

Other than our chief executive officer, who participates in setting the compensation of the other executive officers through his recommendations to the Committee, our executive officers do not directly participate in determining their compensation. Our chief executive officer does not participate directly in setting his own compensation. However, our executive officers, including our chief executive officer, do participate indirectly by initially proposing their quarterly and annual goals (subject to review, revision and approval), the achievement of which impacts their variable cash compensation under our cash incentive plans. Mr. Rodgers' salary, bonus and equity grants are determined by the Committee after considering the peer group analysis undertaken by our consultant, Mr. Rodgers' job performance, the responsibilities of his position, and Company performance.

Executive Compensation Components and Objectives

The components of Cypress's Named Executive Officer compensation program are: (i) base salary; (ii) variable and at-risk cash compensation under our KEBP and PBP; (iii) service-based equity awards and PARS; and (iv) benefit programs such as our deferred compensation plans. We also offer standard health benefits and an employee stock purchase program to all our employees. The Company does not provide a defined benefit pension plan, a match to employee contributions to our 401(k) plan, or any disclosable perquisites. In addition, the Company does not currently have any severance agreements or change of control agreements for its Named Executive Officers.

The Company does NOT provide:

- a defined benefit pension plan;
- a match to employee contributions to our 401(k) plan;
- any match or contribution to the NQDCP;
- any regular disclosable perquisites; and
- any severance agreements or change of control agreements for its Named Executive Officers.

Compensation Element	Objectives	Key Features
Base Salary	To provide a fixed level of cash compensation to reward demonstrated experience, skills and competencies relative to the market value of the job.	Targeted at the 50th percentile of our peer group companies, but varies based on skills, experience and other factors. Adjustments are considered annually based on individual performance, level of pay relative to the market, and internal pay equity.
Annual Cash Incentive Awards	Rewards annual corporate and individual performance and achieving strategic goals.	Annual incentive payments are cash awards based on financial targets –e.g. percentage of non-GAAP profit before taxes. For NEOs, including our chief executive officer, the payout under our cash incentive program depends on achieving individual performance goals through our CSF system.
Performance Bonus Plan Key Employee Bonus Plan Design Bonus Plan (only as applicable)	Aligns NEOs' interests with those of our stockholders by promoting strong annual results through increased profit margin and operating efficiency. Retains NEOs by providing market-competitive compensation.	Annual cash incentive awards can vary from 0% to 200% of the target amount.
Long-Term Incentive Awards (Equity Awards) Performance-based accelerated restricted stock (PARS) and restricted stock	Aligns NEOs' interests with long-term stockholder interests by linking part of each NEO's compensation to long-term corporate performance. Provides opportunities for wealth creation and ownership, which promotes retention and enables us to attract and motivate our NEOs. Retention of NEOs through multi-year vesting of equity grants and multi-year performance periods.	Targeted at a level that will provide total direct compensation (base + annual incentive + equity awards) approximating above the 75th percentile of our peer group's total direct compensation. PARS for our NEOs were awarded in 2007 and vest over five years upon the achievement of performance targets. None of our NEOs received any additional standard award for three years following the 2007 award. PARS vest in increments over a five year period.
Non-Qualified Deferred Compensation	To provide retirement savings in a tax-efficient manner.	NEOs can elect to defer up to 100% of their annual incentive cash payments or defer a portion of their base salaries. Balances in the deferred compensation plan are unfunded obligations. Investment returns on balances are linked to the returns of mutual funds and do not generate any above market returns.

How the Committee Determined the Amount for Each Element of 2010 Compensation

Our executive officers' base salaries approximate the 50th percentile of the base salaries for similar positions in our peer group companies. During 2009 all of our NEOs took pay cuts along with the rest of the Company that ranged from 9% to 11%. Pay cuts ended in the first quarter of 2010. In 2010, our executive officers other than Mr. Rodgers, received salary increases ranging between 0% and 3.3% to bring their base salary to the approximate median level among our peer group companies.

In 2010, at least 80% of the cash compensation paid to our executive officers was variable, subject to achieving aggressively set performance goals that must be achieved at both the corporate and individual CSF level. Payouts under our incentive cash bonus plans may be higher or lower based on the Company's results and an individual's CSF score, such that each Named Executive Officer is motivated and challenged to achieve both short and long-term goals for the Company. In

2010, the incentive cash compensation target percentage for our executive officers remained the same as in previous years and was targeted to provide an above-median opportunity of 175% of base salary for our chief executive officer under the PBP, and 80% of base salary for all other executive officers under our KEBP program. A target payout would require achievement of very aggressive goals that are generally not fully achieved. No executive officer achieved the targeted total cash compensation for each performance period either in 2009 or 2010. Below is a historical table that shows a two-year performance percentage achievement by our Named Executive Officers under PBP, KEBP and for 2009, PPSP:

	2009						2010					
PBP	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**
T.J. Rodgers	0%	0%	94%	102%	81%	55%	84%	131%	143%	113%	49%	104%
	2009						**2010**					
KEBP	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**
T.J. Rodgers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brad Buss	0%	0%	86%	110%	93%	58%	89%	129%	143%	126%	58%	109%
Paul Keswick	0%	0%	91%	40%	0%	26%	84%	108%	76%	112%	58%	88%
Christopher Seams	0%	0%	91%	121%	93%	61%	81%	117%	143%	123%	60%	105%
Norman Taffe	0%	0%	90%	104%	33%	45%	84%	120%	142%	115%	48%	102%
	2009						**2010**					
PPSP	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**
T.J. Rodgers	0%	0%	94%	102%	N/A	49%	N/A	N/A	N/A	N/A	N/A	N/A
Brad Buss	0%	0%	86%	110%	N/A	49%	N/A	N/A	N/A	N/A	N/A	N/A
Paul Keswick	0%	0%	91%	79%	N/A	43%	N/A	N/A	N/A	N/A	N/A	N/A
Christopher Seams	0%	0%	91%	121%	N/A	53%	N/A	N/A	N/A	N/A	N/A	N/A
Norman Taffe	0%	0%	90%	104%	N/A	49%	N/A	N/A	N/A	N/A	N/A	N/A

The PARS award to our executive officers occurred in 2007 as part of our retention strategy for certain key positions needed to meet our Company's business objectives as the Company entered a multi-year refocus of its core semiconductor business and to provide substantial incentive to increase financial, operational and strategic results. In making those grants, the Committee considered roles that are larger in scope, complexity or accountability than standard market positions, as well as rewarding outstanding individual performance. The Committee appreciated that this grant, to be earned ratably over a period of five (5) years, might result in total compensation packages higher than targeted market positions if all performance-related milestones were achieved. Although our NEOs were eligible to receive equity awards in 2010, no additional awards were awarded because the Committee considered the previous award adequate and competitive for our NEOs in 2010. The table below shows percentage payouts to our NEOs under 2009 and 2010 PARS:

Name	2009	2010
T.J. Rodgers	89.5%	99.4%
Brad Buss	89.5%	99.4%
Paul Keswick	89.5%	99.4%
Christopher Seams	89.5%	99.4%
Norman Taffe	89.5%	99.4%

2010 Peer Group Companies

The Committee did not conduct a market analysis of our peer group companies in 2010 for setting executive compensation because the Committee did not intend to make any changes with respect to 2010 compensation of our executive officers. We completed a detailed analysis in 2009.

Our peer group companies for 2010 are listed in the table below:

Peer Group Companies in 2010	
Altera Corporation	Microchip Technology Inc.
Analog Devices, Inc.	National Semiconductor Corporation
Atmel Corporation	NVIDIA Corporation
Broadcom Corporation	ON Semiconductor Corporation
Integrated Device Technology Inc.	PMC-Sierra, Inc.
Linear Technology Corporation	SanDisk Corporation
LSI Corporation	Xilinx, Inc.
Marvell Technology Group Limited	

Committee Considerations in Determining the 2010 Compensation of Executive Officers

Except for Mr. Rodgers whose base salary remained unchanged, our NEOs received a salary increase of 0% to 3.3% based on their focal merit ranking. There were no changes made to the targeted percentage of base salary that our executive officers could earn under the PBP and KEBP.

As a result of the PARS awards granted in 2007, our executive officers were not eligible to receive any new standard equity awards until 2010, except that the Committee could make discretionary awards to Mr. Rodgers. Neither Mr. Rodgers nor any of our Named Executive Officers received a new grant in 2010.

2010 Cash and Equity Incentive Compensation for Named Executive Officers

Cash Incentive Compensation

In 2010, our chief executive officer participated in the PBP and all other Named Executive Officers participated in the KEBP.

Under these plans, our Named Executive Officers typically designate between ten (10) and fifteen (15) CSFs per quarter and for the year. In determining the amount of cash incentive pay payable under the KEBP and the PBP, the Committee uses the final CSF scores for the given review period as a component in the formulas that determine the bonus to be paid under each plan. In order to apply its discretion to reduce the maximum payout under the PBP, the Committee considers the participant's CSF score for the applicable period.

Under the PBP, for 2010, the Committee set objective quarterly and annual non-GAAP PBT% targets that must be achieved by the Company. At the end of the measuring period, the Committee, considered Mr. Rodgers' CSF score for the quarter and applied discretion as provided under the PBP plan, to reduce the maximum payout to Mr. Rodgers by multiplying the target by his CSF percentage score.

The quarterly plan non-GAAP PBT% targets, our actual non-GAAP PBT% achievement, and the percentage of achievement against plan for our 2010 fiscal year are set forth in the following table:

The following PBT% targets were used under the PBP and KEBP for all our executives in 2010:

2010 Fiscal Year Period	Plan Non-GAAP PBT% Target	Non-GAAP PBT% Achieved	Percentage Achievement
First Quarter	20.0%	18.6%	90%
Second Quarter	20.0%	23.4%	134%
Third Quarter	20.0%	25.6%	156%
Fourth Quarter	20.0%	23.4%	134%

Equity Plans

In early 2010, the Committee set performance goals under which participants were eligible to earn their PARS. Four milestones were set for performance under 2010 PARS, as follows:

Milestone #1

30% of total targeted PARS awards could be earned if Cypress's stock appreciation was equal to or greater than the Philadelphia Semiconductor Sector Index (SOXX) calculated from December 31, 2009 versus December 31, 2010 ending stock price. The payout for this milestone adjusted on a linear scale down to 0% if Cypress's stock performance was less than SOXX by greater than 7.5 percentage points. If Cypress's stock price performance was equal to or greater than SOXX at the end of the measurement period, but Cypress stock return was negative for the measurement period then the payout for this milestone was set at 50%. For fiscal year 2010 this milestone paid out at 100% as the Cypress stock appreciation was 76% versus 14% for the SOXX

Milestone #2

40% of total targeted PARS awards could be earned if Cypress achieved a 15.0% or greater non-GAAP annual profit before taxes % for the fiscal year 2010. The payout adjusted on a linear scale down to 0% if the non-GAAP annual PBT% for fiscal year 2010 was 5.0% or less. For fiscal year 2010 this milestone paid out at 100% as the non-GAAP PBT% achieved was 22.9%.

Milestone #3

15% of total targeted PARS awards could be earned if the revenue growth for 2010 was 18.0% or greater compared to Cypress's revenue for 2009. The payout for this milestone adjusted on a linear scale down to 0% if Cypress achieved 10.0% or less revenue growth compared with revenue for fiscal year 2009. For fiscal year 2010 this milestone paid out at 100% as the revenue growth for 2010 was 32%.

Milestone #4

15% of total targeted PARS awards could be earned if the revenue from the PSoC family of products defined as - PSoC1/3/5, True Touch, PPSoC, ONS, Trackpad - for fiscal 2010 was equal to or greater then $210 million. This milestone adjusted on a linear scale down to a 0% payout if revenue from the PSoC family of products was equal to or less than $170 million. For fiscal year 2010 this milestone paid out at 96% as the 2010 revenue achieved totaled $208 million.

All earned shares are released following certification by the Compensation Committee that the applicable performance milestone has been achieved, net of all federal and state withholding tax requirements. Following final certification by the Committee, if the performance milestone is not achieved in full, the portion of the target shares for that particular performance milestone in the given period is forfeited and returned to the 1994 Stock Plan.

The following table sets forth the maximum targeted shares that could be earned in 2010 by our Named Executive Officers under PARS (amounts were awarded and granted in 2007) and the actual payouts, as approved by the Compensation Committee for our Named Executive Officers and the percentage of 2010 PARS earned. The shares in the table below were adjusted for the Spin-Off.

Named Executive Officer	2010 Maximum Shares Achievable	Total Number of Shares Earned in 2010	Percentage Achieved
Mr. Rodgers	659,235	654,983	99.4
Mr. Buss	412,022	409,364	99.4
Mr. Keswick	329,617	327,491	99.4
Mr. Seams	329,617	327,491	99.4
Mr. Taffe	283,265	281,438	99.4

Named Executive Officers' 2010 CSF Quarterly and Annual Performance Goals

In 2010, our chief executive officer, Mr. T.J. Rodgers' annual and quarterly CSF performance goals included, strategies for the reduction of operating expense, increasing revenue and improving gross margin, new product development and launches, implementing programs to make it easier for customers to do business with Cypress, and increasing the Company's customer base.

In 2010, our chief financial officer, Mr. Brad Buss' goals included, implementing trade management processes and infrastructure, developing strategies for improved shareholder returns, revenue and profit improvement, and implementing our world class profit initiative. His quarterly goals included, improving certain business processes, and implementing programs to make it easier for customers to do business with Cypress.

In 2010, our executive vice president of New Product Development, Mr. Paul D. Keswick's annual CSFs focused on the achievement of on-time product launches and the completion of specific Company-wide infrastructure projects. His quarterly goals included improving several of Cypress's business processes, improving product quality requirements and cycle time, and developing and executing various plans for 2010 product launches. Mr. Keswick also had CSFs related to product research and development, the creation of system designs methods and tools, and the formulation and implementation of several engineering and manufacturing initiatives.

In 2010, our executive vice president of Sales and Marketing, Mr. Christopher A. Seams' annual and quarterly CSFs included, initiating strategies for revenue growth, increasing profit, market penetration and new design wins, and implementing programs to make it easier for customer to do business with Cypress. His quarterly goals included, achieving certain revenue performance targets, developing and implementing programs to improve our customer base for specific product lines, implementing our cost saving initiatives, and other strategic initiatives for product marketing and distribution.

Our executive vice president of the Consumer and Computation Division, Mr. Norman P. Taffe's 2010 quarterly and annual CSFs included, implementing various cost-reduction strategies, developing new business, and exploring next generation products for some of our existing products, and achieving specific product quality goals. Mr. Taffe's annual goals included various product launches, achieving specific cycle time and customer service standards, achieving certain revenue performance, and developing and implementing various back-end manufacturing goals.

Named Executive Officers' CSF Difficulty Levels and Likelihood of Achievement of 2011 PBP or KEBP Targets

We cannot predict with any degree of certainty how difficult it will be to achieve the 2011 financial targets under PBP or KEBP. Even where the Company's financial targets are achieved, it is also unpredictable how the CSF score of each executive officer will impact his actual payout, or how our chief executive officer's score will impact the actual payout. Historically, our NEOs do not achieve 100% of their CSFs for each measuring and there are generally, no points are earned beyond 100% achievement. In 2010, our NEOs scored between 87.05% and 93.61% on their CSFs and in 2009, they scored between 81.34% and 94.28% on their CSFs.

Prohibition on Derivative Trading

Our company prohibits derivative transactions in our Company stock by officers and directors directly or indirectly. Specifically, a director or an officer may not, at any time:

- directly or indirectly sell any equity security, including derivatives, of the Company if he or she (1) does not own the security sold, or (2) if he or she owns the security, does not deliver it against such sale (a "short sale against the box") within twenty days thereafter, or does not within five days after such sale deposit it in the mails or other usual channels of transportation.
- engage in short sales, which means any transaction whereby one derives a benefit from a decline in the Company's stock price. This includes buying put options on the Company's stock.

Executive Stock Ownership Guidelines

The Company currently does not have any formal stock ownership guidelines for executive officers. However, each of our NEO's direct common stock ownership is currently well in excess of any industry standard, especially for our chief executive officer. We continue to evaluate adding a formal ownership policy.

2011 Executive Compensation Actions

In 2011 the Compensation Committee has determined the extent to which the Company achieved the 2010 performance milestones established for the 2010 PARS awards. The Compensation Committee has also set the performance targets for earning the 2011 PARS.

The following are the 2011 PARS performance targets set by the Compensation Committee:

- 30% of the targeted PARS shares may be earned if the Company's common stock performance attains certain threshold levels compared with the Philadelphia Semiconductor Sector Index ("SOXX"), as measured from the closing price beginning December 31, 2010 to the closing price of December 31, 2011. If the performance milestone is achieved for the measurement period, the payout is at 100% and adjusts down to 50% payout if the Company's stock price performance reaches only a certain threshold level, but by a specified percentage point greater than SOXX for the measurement period;

- 30% of the targeted PARS shares may be earned at 100% payout if the Company achieves a certain annual non-GAAP PBT% for the measurement period. The payout adjusts on a linear scale down to 0% if the annual non-GAAP PBT% for the measurement period is achieved at a certain level below target;
- 20% of the targeted PARS shares may be earned at 100% if the Company's revenue growth for 2010 is achieved at a certain percentage point. The payout for this milestone adjusts on a linear scale down to 0% if the performance milestone is achieved at a certain level below target for the measurement period; and
- 20% of the targeted PARS shares may be earned at the end of the measurement period if the Company achieves certain revenue growth levels for the PSoC® family of products as compared to fiscal 2010. This milestone pays out at 100% if the Company achieves certain revenue growth levels during the measurement period, and adjusts on a linear scale down to 0% payout if revenue growth is achieved at a certain amount below target.

CSF goals have also been established, and the Board and the Committee have approved the financial performance metrics required for KEBP, and PBP payouts to Named Executive Officers. The Committee has also set performance targets required for 2011 KEBP and PBP.

Perquisites and Other Benefits

Cypress generally does not provide any perquisites to its Named Executive Officers; however, in 2010, Cypress paid the fees and related expenses for a Hart-Scott-Rodino filing that was required on behalf of our chief executive officer, Mr. Rodgers.

Company's policy on IRS 162(m)

Our management and the Committee have considered the implications of Section 162(m) of the Internal Revenue Code of 1986. This section precludes a public corporation from taking a tax deduction for individual compensation in excess of $1 million for its chief executive officer or certain other executive officers. This section also provides for certain exceptions to this limitation, including compensation that is performance-based within the meaning of Section 162(m). Our Performance Bonus Plan enables us to qualify more compensation as deductible performance-based compensation. Many of our executive compensation plans are designed to qualify payments thereunder as deductible performance-based compensation. In order, however, to preserve flexibility in designing our compensation programs, not all amounts we pay may qualify for deductibility.

Severance/Change in Control Compensation

None of our Named Executive Officers have contractual severance or change-in-control benefits.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The information in this report shall not be deemed to be "soliciting material" or "filed" with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that Cypress specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended or the Exchange Act.

We have reviewed and discussed the foregoing Compensation Discussion and Analysis (which is incorporated by reference in this report) with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in Cypress's Annual Report on Form 10-K for the year ended January 2, 2011.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Eric A. Benhamou, Chairman
Lloyd Carney
James R. Long

EXECUTIVE COMPENSATION

The Summary Compensation Table on page 57 sets forth information regarding compensation earned during fiscal years 2010, 2009 and 2008 by our chief executive officer, our chief financial officer and our three other most highly compensated executive officers, who we refer to collectively as our Named Executive Officers or NEOs. In 2008, we modified the outstanding employee equity awards in connection with the Spin-Off of SunPower Corporation in order to preserve the intrinsic value of the awards before and after the Spin-Off. In connection with the Spin-Off, outstanding employee equity awards, vested and unvested, were multiplied by the Spin-Ratio of 4.12022. The amounts shown in the Stock Awards and Option Awards column for 2008 include the incremental fair value of outstanding awards at the time of the Spin-Off. See table on page 59 for the impact of the Spin-Off on the compensation of our Named Executive Officers.

Total compensation for all NEOs in 2010 increased in a range of 11% to 27% due primarily to performance-based compensation elements performing better in 2010 versus 2009, which was impacted by the economic downturn. Compensation changes for all NEOs grew within ranges we have seen from our competitors and grew substantially less than the stock performance we returned of 72% for fiscal 2010 and substantially less than our non-GAAP earnings per share growth of 840% in 2010; thus aligning directly with pay-for-performance.

Cash salaries increased slightly in 2010 as during 2009 we took temporary pay cuts for approximately nine (9) months. Non-Equity Incentive Plan Compensation is comprised solely of 100% performance-based cash bonuses. The bonus target as a percentage of salary remained unchanged from 2009 for each NEO. Our financial performance (as described on pages 43 and 44) was very strong and as such this portion of compensation increased.

Stock awards are primarily comprised of performance-based restricted stock and stock units that were granted in 2007 as described on page 60. No new equity awards were granted in 2010. The number of underlying targeted shares for the 100% performance-based restricted stock and stock units for 2009 and 2010 remained exactly the same for each NEO. The main driver impacting the compensation charge is the underlying increase in the stock price which impacted the fair value of the grant. The grants were 100% performance-based.

Summary Compensation Table[1]

Name and Principal Position	Year	Salary[2] ($)	Bonus ($)	Stock Awards[3] ($)	Option Awards[4] ($)	Non-Equity Incentive Plan Compensation[5] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total Compensation ($)
T.J. Rodgers President, Chief Executive Officer and Director	2010	598,766	0	7,239,062	0	1,092,807	0	262,449[6]	9,193,084
	2009	594,221	0	6,104,336	0	536,952	0	0	7,235,509
	2008	623,074	100,000	4,581,189	12,060,007	577,968	0	0	17,942,238
Brad W. Buss Executive Vice President, Finance & Administration, Chief Financial Officer	2010	333,631	0	4,524,414	0	291,212	0	0	5,149,257
	2009	302,726	0	3,792,160	0	147,649	0	0	4,242,535
	2008	342,445	0	2,469,981	2,638,313	124,804	0	0	5,575,543
Paul D. Keswick Executive Vice President, New Product Development	2010	319,527	0	3,619,531	0	276,770[7]	0	0	4,215,828
	2009	297,887	0	3,409,668	0	70,542	N/A	0	3,778,097
	2008	332,898	0	2,012,520	1,417,420	88,455	N/A	0	3,851,293
Christopher A. Seams, Executive Vice President, Sales and Marketing	2010	373,461	0	3,619,531	0	322,392	0	0	4,315,384
	2009	340,393	0	3,409,668	0	173,446	0	0	3,923,507
	2008	381,219	0	1,996,548	1,408,761	142,053	0	0	3,928,581
Norman P. Taffe[8] Executive Vice President Consumer and Computation Division	2010	289,427	0	3,110,534	0	255,514	0	0	3,655,475
	2009	265,552	0	2,930,168	0	102,338	0	0	3,298,058

1. Our Named Executive Officers do not have employment contracts or any change in control agreements. They are not guaranteed salary increases or cash bonus amounts. We provide no pension benefits and do not match 401(k) contributions. We do not guarantee a return or provide above-market returns on compensation that has been deferred. Executive officers generally do not receive benefits or perquisites that are not available to other employees. We believe our compensation program holds our executive officers accountable for the financial and competitive performance of Cypress, and for their individual contribution toward that performance.

2. Represents actual salary earned in fiscal years 2010, 2009 and 2008. The 2009 salary reflects a Company-wide pay reduction implemented commencing in the second quarter of 2009. The pay reduction was reversed at the beginning of the fourth quarter of fiscal year 2009 for all employees except for our executive officers, whose reversal occurred, at the beginning of fiscal 2010. Salary includes base pay and payment in respect of accrued vacation and holidays. Includes $23,661 paid to Mr. Rodgers, $9,644 paid to Mr. Buss, $12,724 paid to Mr. Keswick, $14,545 paid to Mr. Seams, and $11,339 paid to Mr. Taffe in connection with our Company's mandatory shut down. As part of our cost cutting measures, in November and December 2009, and January 2010, our offices were closed for some days and employees were required either to go without pay for the period, or use their paid-time-off if they wished to be paid during the shut down. Also reflects paid-time-off cash out by our Named Executive Officers.

3. Reflects the fair value of the 2008 stock award to Mr. Rodgers and 2009 and 2010 target performance-based restricted stock units awarded to our Named Executive Officers. In 2007, all of our Named Executive Officers received performance-based restricted stock units ("PARS") that can be earned ratably over five years. The fair value for each year's targeted restricted stock units is determined when the Compensation Committee sets the performance milestones for the applicable year. The fair value amounts disclosed for 2009 also include the adjustments made in 2009 by our Compensation Committee in connection with 2008 PARS. The Compensation Committee in its review of the performance achievements under 2008 PARS exercised its discretion under our 1994 Stock Plan and adjusted the calculation methodology for certain performance milestones under 2008 PARS. In connection with said adjustment, the Company incurred a charge of $4,995,900 with respect to additional shares that our Named Executive Officers earned under 2008 PARS. Of the $4,995,900 charge, $1,308,400 was with respect to additional shares earned by Mr. Rodgers, $794,700 for Mr. Buss, $1,011,700 for each of Messrs. Keswick and Seams, and $869,400 for Mr. Taffe. The amounts entered for 2008 reflect the incremental fair value of outstanding employee equity awards as of August 1, 2008, adjusted by the Spin-Ratio of 4.12022. None of our Named Executive Officers earned the maximum targeted shares for 2009. In 2010, Mr. Rodgers earned 590,080 shares, Mr. Buss earned 368,800 shares, and each of Messrs. Keswick and Seams earned 295,040 and Mr. Taffe earned 253,550. See table on page 59 for impact of the Spin-Off on the compensation of our Named Executive Officers.

4. No new stock option grants were made to our Named Executive Officers in 2010, 2009 and 2008. In connection with the SunPower Spin-Off, modifications were made by multiplying outstanding employee equity by the Spin-Ratio of 4.12022. Amounts entered for 2008 reflect the incremental fair value of outstanding employee equity awards as of August 1, 2008, adjusted by the Spin-Ratio of 4.12022. See table on page 59 for impact of the Spin-Off on the compensation of our Named Executive Officers.

5. Includes bonus amounts earned under our Performance Bonus Plan ("PBP"), Key Employee Bonus Plan ("KEBP") and our Performance Profit Sharing Plan ("PPSP"). Bonuses under our PBP, KEBP and PPSP are paid in arrears of the quarter in which they are earned. The amounts earned are paid out in the fiscal quarter following the quarter earned, provided the employee is still employed by Cypress at the time of the payout, subject to conditions specified under the plan.

6. Reflects government fees and related expenses paid in connection with a Hart-Scott-Rodino (HSR) filing that was required on behalf of Mr. Rodgers.

7. Mr. Keswick's non-equity incentive was earned and paid under the Company's Design Bonus Plan ("DBP"). The Design Bonus Plan was instituted in 2010 to incentivize design and engineering efforts at the Company. The DBP is available to all employees who are design engineers. Eligibility for this cash bonus program is determined on a quarterly basis. Participants in the DBP contribute 10% of their salary and a portion that could be earned under the KEBP in a given quarter in exchange for the opportunity to earn five times that amount by delivering their assigned projects on schedule. Mr. Keswick is the only executive officer who participated in the DBP in 2010.

8. Mr. Taffe was not a Named Executive Officer in 2008.

IMPACT OF SPIN-OFF ADJUSTMENT ON EXECUTIVE COMPENSATION IN 2008

In connection with the Spin-Off, outstanding employee equity awards vested and unvested were multiplied by the Spin-Ratio of 4.12022. In 2008, we modified the outstanding employee equity awards in connection with the Spin-Off of SunPower Corporation in order to preserve the intrinsic value of the awards before and after the Spin-Off. The amounts shown in the Stock Awards and Option Awards column for 2008 reflect the incremental fair value of the Spin-adjusted outstanding stock and option awards. The following table summarizes the effect to total compensation reported to our Named Executive Officers as a result of the Spin-Off.

		EFFECT OF SPIN-OFF ADJUSTMENT		
Name	**Total Compensation Reported ($)**	**Stock Award(s) ($)**	**Option Award(s) ($)**	**Pre Spin-Off Total Adjusted Compensation ($)**
T.J. Rodgers	17,942,238	N/A[1]	(12,060,007)	5,882,231
Brad Buss	5,575,543	(170,381)	(2,638,313)	2,766,849
Paul Keswick	3,851,293	(159,720)	(1,417,420)	2,274,153
Christopher Seams	3,928,581	(143,748)	(1,408,761)	2,376,072
Norman Taffe	N/A	N/A	N/A	N/A

[1] Mr. Rodgers did not have any outstanding unvested stock awards as of August 1, 2008 when the compensation charge was calculated.

The next two tables show all plan-based awards granted to the Named Executive Officers during fiscal year 2010. The unvested portion of the stock awards identified in the table below are also reported in the Outstanding Equity Awards at Fiscal Year-End table.

GRANTS OF PLAN-BASED AWARDS

Fiscal Year Ended January 2, 2011

Name and Principal Position	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/SH)	Grant Date Fair Value of Stock and Option Awards[3] ($)
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
T.J. Rodgers President, Chief Executive Officer and Director	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	659,235	659,235	N/A	N/A	N/A	7,239,062
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	329,618	412,022	N/A	N/A	N/A	4,524,414
Paul D. Keswick Executive Vice President, New Product Development	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	263,694	329,617	N/A	N/A	N/A	3,619,531
Christopher A. Seams Executive Vice President, Sales and Marketing	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	263,694	329,617	N/A	N/A	N/A	3,619,531
Mr. Norman P. Taffe Executive Vice President. Consumer and Computation Division	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	226,612	283,265	N/A	N/A	N/A	3,110,534

1. There are no outstanding future payments under our Performance Bonus Plan ("PBP") or Key Employee Bonus Plan ("KEBP"). All amounts earned under our PBP or KEBP are paid in the quarter after which they were earned. The annual component is paid in the quarter following the fiscal year in which it was earned. See table on page 62 for actual amounts paid to our Named Executive Officers under the PBP, KEBP and as applicable, DBP.

2. In 2007, we granted performance-based restricted stock units to certain employees in senior management positions, including our Named Executive Officers, under our 1994 Stock Plan. The performance-based stock awards vest ratably over a five-year period if the performance milestones are met. Performance milestones are set by the Compensation Committee of the Company's Board of Directors. The Compensation Committee also determines if the performance milestones have been achieved. Mr. Rodgers' maximum targeted restricted stock award for fiscal year 2010 was 659,235. Mr. Buss' maximum targeted restricted stock unit award for fiscal year 2010 was 412,022 in the aggregate. Each of Messrs. Keswick and Seams had a maximum target to earn 329,617 restricted stock units in fiscal year 2010, and Mr. Taffe has a maximum target to earn 283,265 restricted stock units in 2010.

3. Reflects the grant date fair value of the 2010 PARS for our Named Executive Officers and stock awards to Mr. Rodgers in 2010. The PARS were awarded in 2007 and can be earned ratably over five (5) years. The fair value for each year's target restricted stock units is determined when the Compensation Committee sets the performance milestones for the applicable year. The grant date fair value reflects the fair value for the 2010 PARS on the dates that the Compensation Committee set the performance milestones for each performance period.

GRANTS OF PLAN-BASED AWARDS (NON-EQUITY)

Fiscal Year Ended January 2, 2011

Name and Principal Position	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (“PBP”/“KEBP”/“DBP”) [1]		
		Threshold ($)	Earned/ Paid ($)	Target (Plan) ($)
T.J. Rodgers President, Chief Executive Officer and Director	Q1	N/A	177,433	210,000
	Q2	N/A	274,139	210,000
	Q3	N/A	300,456	210,000
	Q4	N/A	237,783	210,000
	Annual	N/A	101,996	210,000
Total			**1,091,807**	**1,050,000**
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	Q1	N/A	47,354	53,505
	Q2	N/A	68,928	53,505
	Q3	N/A	76,776	53,505
	Q4	N/A	67,276	53,505
	Annual	N/A	30,879	53,505
Total			**291,212**	**267,525**
Paul D. Keswick Executive Vice President, New Product Development	Q1	N/A	42,869	51,218
	Q2	N/A	55,276	51,218
	Q3	N/A	74,164	51,218
	Q4	N/A	74,719	51,218
	Annual	N/A	29,742	51,218
Total			**276,770**	**256,090**
Christopher A. Seams Executive Vice President, Sales and Marketing	Q1	N/A	48,845	60,609
	Q2	N/A	70,950	60,609
	Q3	N/A	86,951	60,609
	Q4	N/A	74,475	60,609
	Annual	N/A	36,172	60,609
Total			**317,392**	**303,045**
Norman P. Taffe Executive Vice President, Consumer and Computation Division	Q1	N/A	39,271	46,914
	Q2	N/A	56,117	46,914
	Q3	N/A	66,429	46,914
	Q4	N/A	53,812	46,914
	Annual	N/A	22,326	46,914
Total			**237,955**	**234,570**

[1]Amounts reflect cash incentives to Mr. Rodgers under the PBP, and all other Named Executive Officers under the KEBP, except that amounts stated for Mr. Keswick include non-equity cash bonus he earned under the Company’s Design Bonus Plan (“DBP”) in the third and fourth quarters of 2010. The DBP was instituted in 2010 to incentivize design and engineering efforts at the Company, is available to all employees who are design engineers. Eligibility for this cash bonus program is determined on a quarterly basis. Participants in the DBP contribute 10% of their salary and a portion that could be earned under the KEBP in a given quarter in exchange for the opportunity to earn five times that amount by delivering their assigned projects on schedule. Mr. Keswick is the only executive officer who participated in the DBP in 2010.

OUTSTANDING EQUITY AWARDS

Fiscal Year Ended January 2, 2011

	Option Awards[1]					Stock Awards[2]			
Name and Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised/ Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock Unvested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)
T.J. Rodgers	1,236,066	0	0	4.06	03/16/11	0	0	0	0
President and Chief	1,442,077	0	0	5.18	01/02/14	0	0	0	0
Executive Officer	1,442,077	0	0	3.53	02/25/15	0	0	0	0
	3,028	0	0	8.83	02/25/15	0	0	0	0
	5,306	0	0	3.53	02/25/15	0	0	0	0
	1,565,683	0	0	2.77	02/03/15	0	0	0	0
	1,575,983	175,110	0	3.53	06/30/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	1,318,470[3]	24,497,173
Brad W. Buss	454,836	0	0	3.70	08/15/15	0	0	0	0
Executive Vice President,	167,813[4]	41,203[4]	0	3.70	08/15/15	0	0	0	0
Finance and	112,069	19,778	0	3.99	10/27/16	0	0	0	0
Administration, Chief	N/A	N/A	N/A	N/A	N/A	8,790	163,318	0	0
Financial Officer	N/A	N/A	N/A	N/A	N/A	0	0	824,043[5]	15,310,719
	18,541	0	0	1.79	03/27/13	0	0	0	0
Paul D. Keswick	247,213	0	0	4.76	10/23/13	0	0	0	0
Executive Vice President,	37,082	0	0	3.53	02/25/15	0	0	0	0
New Product Development	105,065	18,541	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	8,241	153,118	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	659,235[6]	12,248,586
	164,808	0	0	4.09	10/08/11	0	0	0	0
	200,650	0	0	4.09	10/08/11	0	0	0	0
Christopher A. Seams	19,365	0	0	4.16	08/22/13	0	0	0	0
Executive Vice President,	370,819	0	0	5.18	01/02/14	0	0	0	0
Sales and Marketing	288,415	0	0	3.53	02/25/15	0	0	0	0
	94,558	16,687	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	7,417	137,808	0	0
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	659,235[6]	12,248,586
Norman P. Taffe									
Executive Vice	39,142	0	0	5.18	07/09/11	0	0	0	0
Consumer and	36,669	0	0	5.38	07/16/11	0	0	0	0
Computation Division	37,081	0	0	4.09	10/08/11	0	0	0	0
	41,202	0	0	4.76	10/23/13	0	0	0	0
	9,271	0	0	3.53	02/25/15	0	0	0	0
	10,301	0	0	3.33	06/08/15	0	0	0	0
	267,814	0	0	3.94	09/06/15	0	0	0	0
	23,348	0	0	3.44	12/08/15	0	0	0	0

Name and Principal Position	Option Awards[1]					Stock Awards[2]			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised/ Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock Unvested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)
	98,061	17,305	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	7,691	142,899	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	566,530[6]	10,526,127

1. All stock option grants described in this table were awarded under our 1994 Stock Plan. The numbers reflect adjustments made, pursuant to which existing stock options awards were multiplied by the Spin-Off Ratio of 4.12022 to reflect the change in market value of the Company's common stock following the distribution to the Company's stockholders of SunPower Corporation class B common stock. Except as noted under footnotes 5 and 6, options granted before 2007 under our 1994 Stock Plan typically have a ten-year term, vest over a five-year period of employment and have an exercise price equal to market value on the date of grant. The remaining unexercised options held by our Named Executive Officers vest, subject to employment, as follows:

Grant Date	Vest Date	T.J. Rodgers	Brad Buss	Paul Keswick	Christopher Seams	Norman Taffe
08/15/05	08/15/11	N/A	41,203	N/A	N/A	N/A
09/06/05	08/22/10	N/A	N/A	N/A	N/A	N/A
12/08/05	12/08/10	N/A	N/A	N/A	N/A	N/A
06/30/06	06/30/11	175,110	N/A	N/A	N/A	N/A
10/27/06	10/01/11	N/A	19,778	18,541	16,687	17,305

2. All restricted stock units and restricted stock awards described in this table were made under the 1994 Stock Plan. The numbers reflect adjustments made, pursuant to which existing stock option awards were multiplied by the Spin-Off Ratio of 4.12022 to reflect the change in market value of the Company's common stock following the distribution to the Company's stockholders of SunPower Corporation class B common stock in connection with the Spin-Off. Restricted stock units awarded vest annually over a five-year period of employment, with a one-year cliff, for service awards and upon approval of performance by the Compensation Committee for performance-based awards. Restricted stock units that are not performance-based vest over time.

3. In 2007, Mr. Rodgers was awarded 3,296,176 spin-adjusted shares of performance-based restricted stock units, which vest ratably over five (5) years if the performance metrics are met. Performance metrics are set annually by the Compensation Committee of the Company. The number in the column represents the balance of shares of restricted Cypress Common Stock distributed to Mr. Rodgers pursuant to the Offer to Exchange Restricted Stock Units for Restricted Stock, dated August 22, 2008, as amended ("RSU Exchange Offer"). Mr. Rodgers received a number of restricted shares of Cypress common stock determined by multiplying the tendered restricted stock units by the conversion ratio of 4.12022. The conversion ratio reflects the ratio of market prices of Cypress common stock before and after the Spin-Off. The restricted Cypress common stock received by Mr. Rodgers is subject to the same performance vesting conditions as the tendered restricted stock units, adjusted to reflect the effect of the SunPower Spin-Off. 659,235 shares were released in the first quarter of 2011 with respect to 2010 PARS and 659,235 shares will vest over the next fiscal year, subject to performance.

4. Stock option awards granted to Mr. Buss started vesting one (1) year from the date of grant, then vest monthly over four (4) years thereafter, and expire ten (10) years from the date of grant.

5. Represents the spin-adjusted number of the remaining performance-based restricted stock units awarded to Mr. Buss in 2007. Performance milestones are set annually by the Compensation Committee of the Company. Mr. Buss' maximum target released for 2010 PARS was 412,022 restricted stock units and 412,021 shares will vest over the next fiscal year, subject to performance. Mr. Buss did not receive any other awards in 2010.

6. Represents the spin-adjusted number of the remaining performance-based restricted stock units awarded to Messrs. Keswick, Seams and Taffe in 2007. Performance milestones are set annually by the Compensation Committee of the Company. Each of Messrs. Keswick and Seams had a maximum target released of 329,617 restricted stock units for 2010 PARS, and Mr. Taffe had a maximum target released of 283,265 for 2010 PARS. Each of Messrs. Keswick and Seams had 329,618 shares and Mr. Taffe had 283,265 shares that will vest over the next fiscal year, subject to performance. Our Named Executive Officers did not receive any other awards in 2010.

OPTION EXERCISES AND STOCK VESTING

Fiscal Year Ended January 2, 2011

Name of Executive Officer	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise[1] ($)	Number of Shares Acquired Upon Vesting (#)[2]	Value Realized Upon Vesting ($)
T.J. Rodgers	1,648,088	13,969,867	263,693	3,153,768
Brad W. Buss	200,000	1,864,875	173,599	2,085,034
Paul D. Keswick	412,022	3,598,709	142,560	1,715,731
Christopher A. Seams	763,480	9,371,423	139,263	1,673,001
Norman P. Taffe	N/A	N/A	120,996	1,454,803

1. Amount shown reflects the difference between the option exercise price and the sale price of the underlying shares multiplied by the number of shares covered by the option.
2. Amount shown reflects total number of shares that vested in 2010. The actual amount released to the Named Executive Officers was net of shares withheld to pay the taxes due upon vesting. The actual shares received by Named Executive Officers were substantially less due to required federal and state withholding taxes.

NON-QUALIFIED DEFERRED COMPENSATION

Fiscal Year Ended January 2, 2011[1]

Name of Executive Officer	Executive Contribution in the Last Fiscal Year ($)	Registrant Contribution in the Last Fiscal Year ($)	Aggregate Earnings in the Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
T.J. Rodgers	1,531,251	0	641,080	0	6,147,379
Brad W. Buss	101,488	0	62,017	0	292,219
Paul D. Keswick	0	0	0	0	0
Christopher A. Seams	111,603	0	40,038	0	460,923
Norman P. Taffe	36,833	0	31,513	0	311,225

1. Amounts in the table represent contributions, aggregate earnings and withdrawals to our Named Executive Officers under our Deferred Compensation Plans (I) and (II) in 2010. There are no guaranteed payments under our deferred compensation plans.

OTHER DISCLOSURES

Compensation Committee Interlocks and Insider Participation

During fiscal year 2010, the following directors were members of our Compensation Committee: Mr. Eric A. Benhamou, Mr. Lloyd Carney, and Mr. James R. Long. None of the Compensation Committee members is or has at any time been an officer or employee of Cypress.

None of Cypress's Named Executive Officers serves, or in the past fiscal year served, as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on Cypress's Board or Compensation Committee.

Certain Relationships and Related Transactions

In the first quarter of 2011, the Company divested its Image Sensor Business to On Semiconductor. Mr. J. Daniel McCranie, who serves on our Board, is also the chairman of the board of directors of On Semiconductor and Mr. McCranie abstained from voting on the approval of the divestiture by Cypress.

Apart from service on our Board, and Mr. McCranie's related party transaction, there are no additional relationships between our directors and our Company, nor are there any related party transactions between our directors and our Company. For purposes of this section, "related person" and "transaction" have the meanings contained in Item 404 of Regulation S-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file an initial report of ownership on Form 3 and changes in ownership on Form 4 or 5 with the SEC. Such officers, directors and 10% stockholders are also required by the SEC rules to furnish us with copies of all of the forms they filed to comply with Section 16(a) requirements.

To our knowledge, based solely on a review of the copies of such reports furnished to us, except for Mr. Evert van de Ven's Form 4 dated December 15, 2010, which was not timely filed, all Section 16(a) filing requirements were complied with during fiscal 2010.

OTHER MATTERS

We know of no other matters to be submitted at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as the Board of Directors may recommend.

It is important that your stock be represented at the Annual Meeting, regardless of the number of shares you hold. You are, therefore, urged to execute and return the accompanying proxy in the envelope provided or to vote by telephone or over the Internet at your earliest convenience.

FOR THE BOARD OF DIRECTORS

Brad W. Buss
Corporate Secretary

Dated: March 29, 2011

APPENDIX A

CYPRESS SEMICONDUCTOR CORPORATION
1994 STOCK PLAN

(As amended and restated on the date of the 2011 Annual Stockholder Meeting)

1. **PURPOSES OF THE PLAN**. THE PURPOSES OF THIS STOCK PLAN ARE:

- to promote the long term success of the Company's business;
- to attract and retain the best available personnel for positions of substantial responsibility; and
- to provide long term incentive to Employees, Consultants and Outside Directors that is aligned with the long term interest of all stockholders.

2. **COMPONENTS OF THE PLAN**. THE PLAN PROVIDES FOR:

- the discretionary granting of Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units to Employees, Consultants and Outside Directors, which Options may be either Incentive Stock Options (for Employees only) or Nonstatutory Stock Options, as determined by the Administrator at the time of grant; and
- the grant of Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units to Outside Directors pursuant to an automatic, non-discretionary formula.

3. **STOCK SUBJECT TO THE PLAN**. The maximum aggregated number of Shares authorized for issuance under the Plan is 145,195,220. The Shares may be authorized, but unissued, or reacquired Common Stock. Any Shares subject to Options or Stock Appreciation Rights shall be counted against the numerical limits of this section 3 as one Share for every Share subject thereto. Any Shares of Restricted Stock or Restricted Stock Units with a per Share or unit purchase price lower than 100% of Fair Market Value on the date of grant shall be counted against the numerical limits of this section 3 as 1.88 Shares for every one Share subject thereto. To the extent that a Share that was subject to an Award that counted as 1.88 Shares against the Plan reserve pursuant to the preceding sentence is recycled back into the Plan under the next paragraph of this section 3, the Plan shall be credited with 1.88 Shares.

Subject to Section 16 of the Plan, If any Shares that have been subject to an option or SAR (whether granted under this Plan or the Terminated Plans) cease to be subject to such Option or SAR (other than through exercise of the Option or SAR), or if any Option or SAR granted hereunder or thereunder is forfeited, or any Option or SAR otherwise terminates prior to the issuance of Common Stock to the Participant, the Shares that were subject to such Option or SAR shall again be available for distribution in connection with future awards under the Plan (unless the Plan has terminated).

Shares that have actually been issued under the Plan upon exercise of an Option shall not in any event be returned to the Plan and shall not become available for future distribution under the Plan. With respect to SARs, when an SAR is exercised, the full number of shares subject to the SAR or portion thereof being exercised shall be counted against the numerical limits of this section 3 above as one Share for every Share subject thereto, regardless of the number of Shares used to settle the SAR upon exercise. For example, if an SAR covering 100 shares is exercised by a Participant and the Participant receives 80 Shares (with 20 Shares withheld to cover the SAR exercise price), the Plan Share reserve shall be debited the full 100 Shares and such Shares will not be available for future distribution under the Plan. Similarly, if Shares are withheld to satisfy the minimum statutory withholding obligations arising in connection with the vesting, exercise or issuance of any Award (or delivery of the related Shares), such withheld Shares will not be available for future issuance under the Plan.

Shares of Restricted Stock (including Restricted Stock Units) that do not vest and thus are forfeited back to or repurchased by the Company shall become available for future grant or sale under the Plan (unless the Plan has terminated). Shares of Restricted Stock or Restricted Stock Units that vest shall not in any event be returned to the Plan and shall not become available for future distribution under the Plan.

Notwithstanding the foregoing and, subject to adjustment as provided in section 16 of the Plan, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in the first paragraph of section 3, plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to the second and third paragraphs of this section 3.

4. ADMINISTRATION OF THE PLAN.

4.1. Procedure.

4.1.1. Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to different groups of Employees, Consultants and Directors.

4.1.2. Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

4.1.3. Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

4.1.4. Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which Committee shall be constituted to satisfy Applicable Laws.

4.1.5. Administration With Respect to Automatic Grants to Outside Directors. Automatic grants to Outside Directors shall be pursuant to a non-discretionary formula as set forth in section 10 hereof and therefore shall not be subject to any discretionary administration.

4.2. Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

4.2.1. to determine the Fair Market Value of the Common Stock, in accordance with subsection 23.19 of the Plan;

4.2.2. to select the Consultants, Employees and Outside Directors to whom Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units may be granted hereunder;

4.2.3. to determine whether and to what extent Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units are granted hereunder;

4.2.4. to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

4.2.5. to approve forms of agreement, including electronic forms, for use under the Plan;

4.2.6. to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option, Stock Appreciation Right, Restricted Stock or Restricted Stock Unit award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options or SARs may be exercised and when Restricted Stock or Restricted Stock Units vest or are issued (which may, in either case, be based on performance criteria), any vesting acceleration or waiver of forfeiture or repurchase restrictions, and any restriction or limitation regarding any Award or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

4.2.7. to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

4.2.8. to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

4.2.9. to modify or amend each Award (subject to subsection 18.3 of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options or SARs longer than is otherwise provided for in the Plan (but not longer than the original Option or SAR term);

4.2.10. to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or SAR or the vesting or issuance of Restricted Stock or Restricted Stock Units that number of Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

4.2.11. to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

4.2.12. to determine the terms and restrictions applicable to Awards; and

4.2.13. to make all other determinations deemed necessary or advisable for administering the Plan.

4.3. Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Participants and any other holders of Awards.

5. ELIGIBILITY.

5.1. Discretionary Awards. Nonstatutory Stock Options, SARs, Restricted Stock and Restricted Stock Unit Awards may be granted to Employees, Consultants and Outside Directors. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee, Consultant or Outside Director who has been granted an Award may be granted additional Awards.

5.2. Outside Director Awards. Outside Directors shall also receive automatically granted Awards pursuant to section 10 hereof.

6. LIMITATIONS.

6.1. Each Option shall be designated in the Notice of Grant or Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value:

6.1.1. of Shares subject to a Participant's incentive stock options granted by the Company, any Parent or Subsidiary, which

6.1.2. become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6.1.2, incentive stock options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time of grant.

6.2. Neither the Plan nor any Award shall confer upon any Participant any right with respect to continuing the Participant's employment or consulting relationship or tenure as a director with the Company, nor shall they interfere in any way with the Participant's, the Company's, or the Company's stockholders', right to terminate such employment or consulting relationship or tenure as a Director with the Company at any time, with or without cause.

6.3. The following limitations shall apply to grants of Options and SARs to Employees:

6.3.1. No Employee shall be granted, in any fiscal year of the Company, Options and SARs to purchase, in the aggregate, more than 2,000,000 Shares.

6.3.2. The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in subsection 16.1.

6.3.3. If an Option or SAR is cancelled (other than in connection with a transaction described in section 16), the cancelled Option or SAR will be counted against the limit set forth in subsection 6.3.1. For this purpose, if the exercise price of an Option or SAR is reduced (which would require prior stockholder approval pursuant to section 22 hereof), the transaction will be treated as a cancellation of the Option or SAR and the grant of a new Option or SAR.

7. TERM OF PLAN. The plan was amended and restated in 2008. It shall continue in effect until January 15, 2014, unless terminated earlier under section 16 of the plan.

8. TERM OF OPTION OR SAR. The term of each option or SAR shall be eight (8) years from the date of grant or such shorter term as may be provided in the notice of grant, option or SAR agreement. In the case of an incentive stock option granted to a participant who, at the time the incentive stock option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the company or any parent or subsidiary, the term of the incentive stock option shall be five (5) years from the date of grant or such shorter term as may be provided in the notice of grant or option agreement.

9. OPTION AND SAR EXERCISE PRICE; OPTION CONSIDERATION.

9.1. Exercise Price. The per share exercise price for the Shares to be issued pursuant to exercise of an Option or SAR shall be determined by the Administrator, subject to the following:

9.1.1. In the case of an Incentive Stock Option

9.1.1.1. granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

9.1.1.2. granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than one hundred (100%) of the Fair Market Value per Share on the date of grant.

9.1.2. In the case of a Nonstatutory Stock Option or an SAR, the per Share exercise price shall be no less than one hundred percent (100%) of Fair Market Value per Share on the date of grant.

9.2. Waiting Period and Exercise Dates. At the time an Option or SAR is granted, the Administrator shall fix the period within which the Option or SAR may be exercised and shall determine any conditions which must be satisfied before the Option or SAR may be exercised. In so doing, the Administrator may specify that an Option or SAR may not be exercised until the completion of a service period or until certain performance milestones are achieved.

9.3. Form of Option Consideration. Except with respect to automatic stock option grants to Outside Directors, the Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such form of consideration shall be set forth in the Notice of Grant or Option Agreement and may, as determined by the Administrator (and to the extent consistent with Applicable Laws), consist entirely of:

9.3.1. cash;

9.3.2. check;

9.3.3. promissory note;

9.3.4. other previously-owned Shares which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

9.3.5. delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price;

9.3.6. any combination of the foregoing methods of payment; or

9.3.7. such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

10. AUTOMATIC GRANTS TO OUTSIDE DIRECTORS.

10.1. Procedure for Grants. All grants to Outside Directors under this section 10 shall be automatic and non-discretionary and shall be made strictly in accordance with the following provisions:

10.1.1. No person shall have any discretion to select which Outside Directors shall be granted Awards or to determine the number of Shares or units to be covered by Awards granted to Outside Directors.

10.1.2. Each Outside Director shall be automatically granted that number of Restricted Stock Units equal to $525,000 divided by the Fair Market Value, rounded down to the nearest whole Share (the "Initial RSU Grant") upon the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board of Directors to fill a vacancy. The Initial RSU Grant shall vest as to 1/3 of the covered units/Shares on each anniversary of the grant date, so as to be 100% vested on the third anniversary of the grant date, subject to the Outside Director remaining in Continuous Status as a Director through such vesting dates.

10.1.3. At each of the Company's annual stockholder meetings, (A) each Outside Director who was an Outside Director on the date of the prior year's annual stockholder meeting shall be automatically granted that number of Restricted Stock Units equal to $175,000 divided by the Fair Market Value, rounded down to the nearest whole Share, and (B) each Outside Director who was not an Outside Director on the date of the prior year's annual stockholder meeting shall be granted that number of Restricted Stock Units equal to $175,000 divided by the Fair Market Value, rounded down to the nearest whole Share, then multiplied by a fraction, the numerator of which is the number of days since the Outside Director received their Initial RSU Grant, and the denominator of which is 365, rounded down to the nearest whole unit/Share (either (A) or (B) is referred to herein as the "Annual RSU Grant"). In either case, the Annual RSU Grant shall be 100% vested on the grant date.

10.1.4. Notwithstanding the provisions of subsection 10.1.3 hereof, in the event that the Annual RSU Grant hereunder would cause the number of units/Shares subject to outstanding Awards plus the number of units/Shares previously acquired upon exercise or vesting of Awards to exceed the number of units/Shares available for issuance under the Plan, then each such automatic grant shall be for that number of units/Shares determined by dividing the total number of units/Shares remaining available for grant by the number of Outside Directors on the automatic grant date, pro-rated for each Outside Director who was not an Outside Director on the date of the prior year's annual stockholder meeting as set forth in 10.1.3(B). Any further Annual RSU Grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan.

10.2. Consideration for Exercising Outside Director Stock Options. The consideration to be paid for the Shares to be issued upon exercise of an automatic Outside Director Option (granted on or prior to May 22, 2009) shall consist entirely of cash, check, other Shares of previously owned Common Stock which have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, and, for Options granted on or after the 2004 Company annual stockholder meeting, to the extent permitted by Applicable Laws, delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or any combination of such methods of payment.

10.3. Post-Directorship Exercisability.

10.3.1. Termination of Status as a Director. If an Outside Director ceases to serve as a Director, he may, but only within ninety (90) days, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise an Option at the date of such termination, or if he or she does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

10.3.2. Disability of Director. Notwithstanding the provisions of subsection 10.3.1 above, in the event a Director is unable to continue his or her service as a Director with the Company as a result of his or her Disability, he or she may, but only within six (6) months, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, from the date of termination, exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he or she does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

10.3.3. Death of Director. In the event of the death of a Participant:

10.3.3.1. during the term of the Option who is at the time of his death a Director of the Company and who shall have been in Continuous Status as a Director since the date of grant of the Option, the Option may be exercised, at any time within six (6) months, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, following the date of death, by the Director's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Participant continued living and remained in Continuous Status a Director for twelve (12) months after the date of death; or

10.3.3.2. within thirty (30) days after the termination of Continuous Status as a Director, the Option may be exercised, at any time within six (6) months, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, following the date of death, by the Participant's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

11. EXERCISE OF OPTION OR SAR.

11.1. Procedure for Exercise; Rights as a Stockholder. Any Option or SAR granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option or SAR Agreement. An Option or SAR may not be exercised for a fraction of a Share.

An Option or SAR shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) for Options only, full payment for the Shares with respect to which the Option is exercised. Full payment for Options may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option or SAR shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option or SAR. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option or SAR is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in section 16 of the Plan.

Exercising an Option or SAR in any manner shall decrease the number of Shares thereafter available for sale under the Option or SAR by the number of Shares as to which the Option or SAR is exercised.

11.2. Termination of Service. Upon termination of a Participant's Continuous Status as an Employee, Consultant or Director, other than upon the Participant's death or Disability, the Participant may exercise the Option or

SAR, but only within such period of time as is specified in the Notice of Grant, Option or SAR Agreement, and, unless otherwise determined by the Administrator, only to the extent that the Participant was entitled to exercise it at the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant or Option Agreement). In the absence of a specified time in the Notice of Grant, Option or SAR Agreement, the Option or SAR shall remain exercisable for thirty days following the Participant's termination of Continuous Status as an Employee, Consultant or Director. If, at the date of termination, the Participant is not entitled to exercise the entire Option or SAR, the Shares covered by the unexercisable portion of the Option or SAR shall revert to the Plan. If, after termination, the Participant does not exercise the Option or SAR within the time specified by the Administrator, the Option or SAR shall terminate, and the Shares covered by such Option or SAR shall revert to the Plan.

11.3. Disability of Participant. In the event that a Participant's Continuous Status as an Employee, Consultant or Director terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR at any time within six (6) months or such other period of time not exceeding twelve (12) months, as is specified in the Notice of Grant, Option or SAR Agreement, except in the case of automatic stock option grants to Outside Directors, which shall be exercised as specified in section 10. Unless otherwise determined by the Administrator, any such Options or SARs may only be exercised to the extent that the Participant was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option or SAR as set forth in the Notice of Grant, Option or SAR Agreement). If, at the date of termination, the Participant is not entitled to exercise his or her entire Option or SAR, the Shares covered by the unexercisable portion of the Option or SAR shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option or SAR within the time specified herein, the Option or SAR shall terminate, and the Shares covered by such Option or SAR shall revert to the Plan.

11.4. Death of Participant. In the event of the death of a Participant (other than an Outside Director with respect to his or her automatic stock option grant):

11.4.1. during the term of the Option or SAR who is at the time of his or her death an Employee, Consultant or Director of the Company and who shall have been in Continuous Status as an Employee, Consultant or Director since the date of grant of the Option or SAR, the Option or SAR may be exercised, at any time within six (6) months following the date of death, by the Participant's estate or by a person who acquired the right to exercise the Option or SAR by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Participant continued living and remained in Continuous Status as an Employee, Consultant or Director for twelve (12) months after the date of death; or

11.4.2. within thirty (30) days after the termination of Continuous Status as an Employee, Consultant or Director, the Option or SAR may be exercised, at any time within six (6) months following the date of death, by the Participant's estate or by a person who acquired the right to exercise the Option or SAR by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

12. STOCK APPRECIATION RIGHTS.

12.1. The SAR shall entitle the Participant, by exercising the SAR, to receive from the Company an amount equal to the excess of (x) the Fair Market Value of the Common Stock covered by exercised portion of the SAR, as of the date of such exercise, over (y) the Fair Market Value of the Common Stock covered by the exercised portion of the SAR, as of the date on which the SAR was granted; provided, however, that the Administrator may place limits on the amount that may be paid upon exercise of a SAR; and

12.2. SARs shall be exercisable, in whole or in part, at such times as the Administrator shall specify in the Participant's Award Agreement;

12.3. Form of Payment. The Company's obligation arising upon the exercise of a SAR may be paid in Common Stock or in cash, or in any combination of Common Stock and cash, as the Administrator, in its sole discretion, may determine, but only as specified in the Notice of Grant or SAR Agreement. Shares issued upon the exercise of a SAR shall be valued at their Fair Market Value as of the date of exercise.

12.4. Rule 16b-3. SARs granted hereunder shall contain such additional restrictions as may be required to be contained in the Plan or Award Agreement in order for the SAR to qualify for the maximum exemption provided by Rule 16b-3.

13. RESTRICTED STOCK/RESTRICTED STOCK UNITS.

13.1. Grant of Restricted Stock/Restricted Stock Units. Subject to the terms and conditions of the Plan, Restricted Stock or Restricted Stock Units may be granted to Employees, Consultants and Outside Directors at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine (i) the number of Shares subject to a Restricted Stock or Restricted Stock Unit Award granted to any Participant (provided that during any Fiscal Year, no Participant shall receive more than 3,296,176 Shares in the aggregate of Restricted Stock or Restricted Stock Unit Awards) (ii) whether the form of the award shall be Shares or rights to acquire Shares (i.e., Restricted Stock Units), and (iii) the conditions that must be satisfied, which may include or consist entirely of performance-based milestones, upon which is conditioned the grant or vesting of Restricted Stock or Restricted Stock Units. For Restricted Stock Units, each such unit shall be the equivalent of one Share of Common Stock for purposes of determining the number of Shares subject to an Award. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Restricted Stock or Restricted Stock Unit, notwithstanding its vesting. The Company shall issue (or cause to be issued) such stock certificate promptly after the Restricted Stock or Restricted Stock Unit vests. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in section 16 of the Plan.

13.2. Other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Restricted Stock and Restricted Stock Unit Awards granted under the Plan. Restricted Stock and Restricted Stock Unit Awards shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time of grant, which may include such performance-based milestones as are determined appropriate by the Administrator, which may be Performance Goals, or for Restricted Stock or Restricted Stock Unit Awards not intended to qualify as “performance-based compensation” under Code Section 162(m), may be other performance-based milestones. The Administrator may require the recipient to sign a Restricted Stock or Restricted Stock Unit Agreement as a condition of the Award. Any certificates representing the shares of Stock awarded shall bear such legends as shall be determined by the Administrator.

13.3. Restricted Stock or Restricted Stock Unit Award Agreement. Each Restricted Stock or Restricted Stock Unit grant shall be evidenced by an Award agreement that shall specify the purchase price (if any) and such other terms and conditions as the Administrator, in its sole discretion, shall determine; provided; however, that if the Restricted Stock or Restricted Stock Unit Award has a purchase price, such purchase price must be paid no later than the earlier of (i) eight (8) years following the date of grant, or (ii) the vesting date.

13.4. Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock or Restricted Stock Units as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Administrator on or before the latest date permissible to enable the Restricted Stock or Restricted Stock Units to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Restricted Stock or Restricted Stock Units which is intended to qualify under Section 162(m) of the Code, the Administrator shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Restricted Stock under Section 162(m) of the Code (e.g., in determining the Performance Goals).

14. LEAVES OF ABSENCE. Unless the administrator provides otherwise, and subject to applicable laws, vesting of awards granted hereunder shall cease during any unpaid leave of absence. Moreover, unless the administrator provides otherwise, any employee who transfers his or her employment to a subsidiary and receives an equity incentive covering such subsidiary’s equity securities in connection with such transfer, shall cease vesting in awards granted under this plan until such time, if any, as such employee transfers from the employ of such subsidiary or another subsidiary directly back to the employ of the company.

15. NON-TRANSFERABILITY OF AWARDS. Unless determined otherwise by the administrator, an award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the participant, only by the participant. If the administrator makes an award transferable, such award shall contain such additional terms and conditions as the administrator deems appropriate; provided, however, that in no event may an award be transferred in exchange for consideration.

16. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION OR SIMILAR TRANSACTION, DISSOLUTION, MERGER, ASSET SALE OR CHANGE OF CONTROL.

16.1. Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Award, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award or forfeiture or repurchase of unvested Restricted Stock or Restricted Stock Units, the price per share, if any, of Common Stock covered by each such outstanding Award, the limit on the number of Shares subject to an Option or SAR that may be granted to an Employee in any fiscal year under subsection 6.3.1, as well as the limit of the number of Shares that may be issued as Restricted Stock or Restricted Stock Unit Awards under subsection 13.1, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Restricted Stock award.

16.2. Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, with respect to discretionary Awards granted under the Plan (but not with respect to Awards granted to Outside Directors) the Board may, in the exercise of its sole discretion in such instances, declare that any such Award shall terminate as of a date fixed by the Board and give each Participant the right to exercise his or her Option or SAR as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable or accelerate the vesting of a Participant's Restricted Stock or Restricted Stock Unit Award.

16.3. Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Award shall be assumed or an equivalent Award shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. With respect to a discretionary Award granted under the Plan (but not with respect to Options granted to Outside Directors under section 10), the Administrator may, in the exercise of its sole discretion and in lieu of such assumption or substitution, provide for the Participant to have the right to exercise such Option or SAR as to all of the Optioned Stock, including as to Shares which would not otherwise be exercisable or provide for the accelerated vesting of Restricted Stock or Restricted Stock Units. With respect to Options and restricted stock units granted to Outside Directors under section 10, in the event that the successor corporation does not agree to assume such Options and restricted stock units or to substitute equivalent options or rights, each such outstanding Option and restricted stock unit shall become fully vested and exercisable, including as to Shares and units as to which it would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise.

If the Administrator makes a discretionary Option or SAR fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Participant that the Option or SAR shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the Option or SAR will terminate upon the expiration of such period.

For the purposes of this subsection, the Award shall be considered assumed if, following the merger or sale of assets, the Award confers the right to purchase (or, in the case of Restricted Stock or Restricted Stock Units without a purchase price, receive), for each Share subject to the Award immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR or vesting of the Restricted Stock or Restricted Stock Unit Award, for each Share subject to the Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

16.4. Spin-Off or Split-Off. Subject to any required action by the stockholders of the Company, and at the sole discretion of the Board, the number and/or type of shares of covered by each outstanding Award, the number and/or type of shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award or forfeiture or repurchase of unvested Restricted Stock or Restricted Stock Units and the price per share, if any, of Common Stock covered by each such outstanding Award may be appropriately and proportionately adjusted, or such other actions as are appropriate may be taken, to account for any increase or diminution in value of an Award resulting from a Spin-Off, split-off or similar transaction involving equity securities of a Subsidiary or former Subsidiary. Any such discretionary adjustment or action shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

17. AWARD GRANT DATE. The date of grant of an award shall be, for all purposes, the date on which the administrator makes the determination granting such option or restricted stock award, or such other later date as is determined by the administrator. Notice of the determination shall be provided to each participant within a reasonable time after the date of such grant.

18. AMENDMENT AND TERMINATION OF THE PLAN.

18.1. Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

18.2. Stockholder Approval. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws. Shares may not be added to the Plan (other than pursuant to sections 3 or 16.1 hereof) without obtaining stockholder approval.

18.3. Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company.

19. CONDITIONS UPON ISSUANCE OF SHARES.

19.1. Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or SAR or vesting of a Restricted Stock or Restricted Stock Unit Award unless the exercise of such Option or SAR or vesting of such Restricted Stock or Restricted Stock Unit Award and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

19.2. Investment Representations. As a condition to the exercise of an Option or SAR or purchase of Restricted Stock or Restricted Stock Unit, the Company may require the person exercising such Option or SAR or purchasing such Restricted Stock or Restricted Stock Unit to represent and warrant at the time of any such exercise or purchase that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. LIABILITY OF COMPANY.

20.1. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

20.2. Awards Exceeding Allotted Shares. If the Shares covered by an Award exceed, as of the date of grant, the number of Shares which may be issued under the Plan without additional stockholder approval, such Award shall be void with respect to such excess Shares, unless stockholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with subsection 18.2 of the Plan.

21. RESERVATION OF SHARES. The company, during the term of this Plan, will at all times reserve and keep available such number of shares as shall be sufficient to satisfy the requirements of the Plan.

22. UNDERWATER OPTION EXCHANGES. The Administrator may not permit the repricing, including by way of exchange, of any Award, without receiving prior stockholder approval.

23. DEFINITIONS. As used herein, the following definitions shall apply:

23.1. "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with section 4 of the Plan.

23.2. "Applicable Laws" means the legal requirements relating to the administration of stock option plans under federal and state corporate and securities laws, the Code and any stock exchange on which the Common Stock is listed or quoted.

23.3. "Award" means an award hereunder of an Option, Stock Appreciation Right, Restricted Stock or Restricted Stock Unit.

23.4. "Board" means the Board of Directors of the Company.

23.5. "Code" means the Internal Revenue Code of 1986, as amended.

23.6. "Committee" means a committee appointed by the Board or its Compensation Committee in accordance with section 4 of the Plan.

23.7. "Common Stock" means the Common Stock of the Company.

23.8. "Company" means Cypress Semiconductor Corporation, a Delaware corporation.

23.9. "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services; provided, however, that the term "Consultant" shall not include Outside Directors, unless such Outside Directors are compensated for services to the Company other than through payment of director's fees.

23.10. "Continuous Status as a Director" means that the Director relationship is not interrupted or terminated.

23.11. "Continuous Status as an Employee, Consultant or Director" means that the employment, consulting or Director relationship with the Company or any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee, Consultant or Director shall not be considered interrupted in the case of: (i) any leave of absence approved by the Company, including sick leave, military leave, or any other personal leave; provided, however, that for purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company policies) or statute; provided, further, that on the ninety-first (91st) day of any such leave (where reemployment is not guaranteed by contract or statute) the Participant's Incentive Stock Option shall cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option; or (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor.

23.12. "Director" means a member of the Board.

23.13. "Disability" means total and permanent disability as defined in Section 22(e)(3) of the Code.

23.14. "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

23.15. "Exchange Act" means the Securities Exchange Act of 1934, as amended.

23.16. "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

23.16.1. If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the Fair Market Value of a Share of Common Stock shall be the closing sale price for such stock (or the mean of the closing bid and asked prices, if no sales were reported), as quoted on such exchange (or the exchange with the greatest volume of trading in Common Stock) or system on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

23.16.2. If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean of the closing bid and asked prices for such stock on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

23.16.3. In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

23.17. "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

23.18. "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

23.19. "Notice of Grant" means a written notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is part of the Option Agreement.

23.20. "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

23.21. "Option" means a stock option granted pursuant to the Plan or the Terminated Plans.

23.22. "Option Agreement" means a written agreement between the Company and a Participant evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

23.23. "Optioned Stock" means the Common Stock subject to an Option or SAR.

23.24. "Outside Director" means a Director who is not an Employee or Consultant.

23.25. "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

23.26. "Participant" means an Employee, Consultant or Outside Director who holds an outstanding Option or Restricted Stock award.

23.27. "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Administrator (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Administrator, the performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or which may be adjusted when established to exclude any items otherwise includable under GAAP or under IASB Principles: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (vi) earnings per share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the

S&P 500 Index, the Philadelphia Semiconductor Sector Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating margin, (xvii) market share, (xviii) contract awards or backlog, (xix) overhead or other expense reduction, (xx) credit rating, (xxi) objective customer indicators, (xxii) new product invention or innovation, (xxiii) attainment of research and development milestones, (xxiv) improvements in productivity, (xxv) attainment of objective operating goals, and (xxvi) objective employee metrics.

23.28. "Plan" means this 1994 Plan, as amended.

23.29. "Restricted Stock" means shares of Common Stock granted pursuant to section 12 of the Plan.

23.30. "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

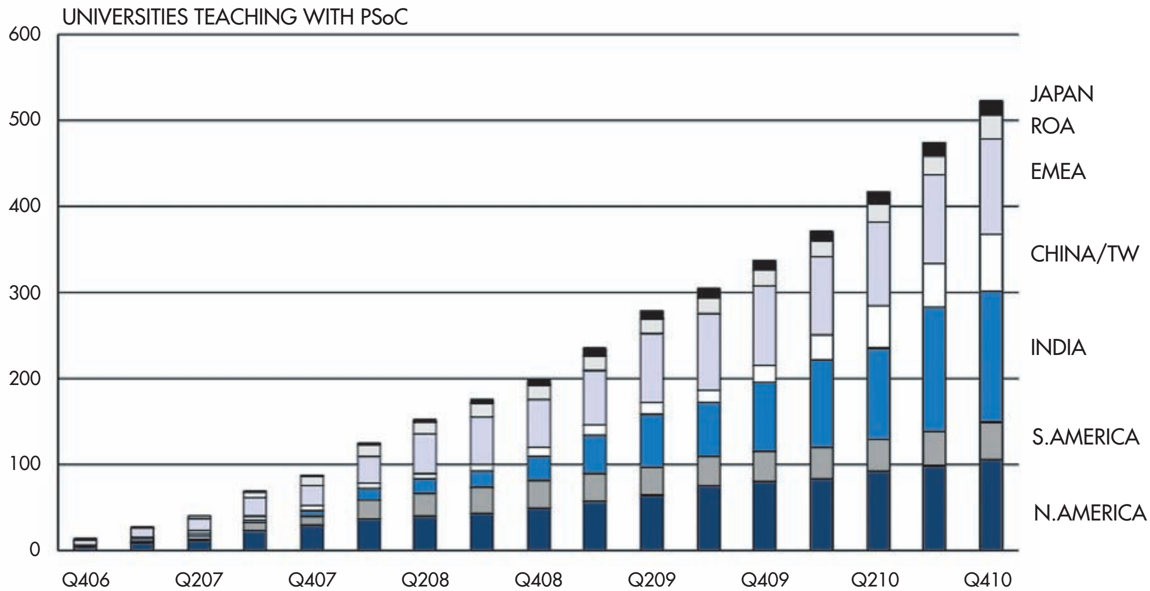
23.31. "Stock Appreciation Right" or "SAR" means a Stock Appreciation Right granted pursuant to section 12 of the Plan.

23.32. "Share" means a share of the Common Stock, as adjusted in accordance with section 16 of the Plan.

23.33. "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

PSoC: 500 UNIVERSITY CUSTOMERS WORLDWIDE & GROWING

Cypress's PSoC platform is now part of the embedded design engineering curriculum at more than 500 universities around the world – laying the groundwork for a new generation of PSoC users and future Cypress employees.



DR. ANDRZEJ RUCINSKI, UNIVERSITY OF NEW HAMPSHIRE

- *Director of UNH Critical Infrastructure Dependability Lab*
- *27 years specializing in computer programming and VLSI design*

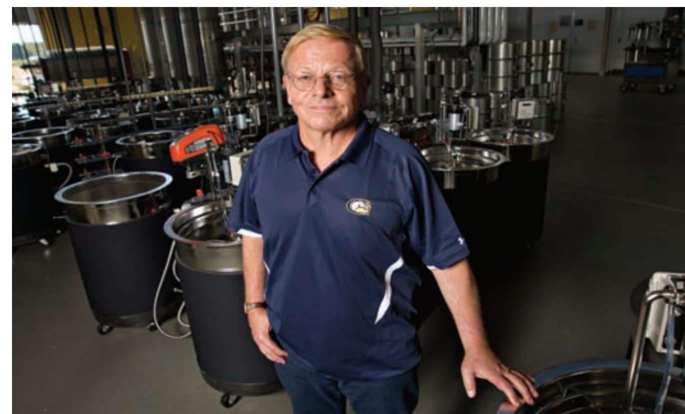
"Cypress PSoC technology enables students to bridge the gap between theoretical consideration and what you can do in the lab – and to actually demonstrate things that we talk about theoretically."

OPERA-SINGING ROBOTS – PSoC controls the eye movements of these robots, built by students at Shanghai Jiaotong University and showcased at the 2010 Shanghai World Expo.

DR. RAJESH GUPTA, UNIV. OF CALIFORNIA, SAN DIEGO

- *Head of UCSD Embedded Systems Group*
- *Chair of UCSD Computer Science & Engineering Dept.*

"PSoC enables students to learn things they wouldn't have learned before, like what is the role of capacitive touch sensing or how sampling can be more efficient. You become a better engineer with PSoC."



HIGH-TECH WINERY – Cypress CEO T.J. Rodgers, also a commercial winemaker, has worked with the world-leading enology and viticulture school at UC Davis to donate 152 high-tech fermentors that collect winemaking data and transmit it wirelessly to a workstation. The fermentors rely on Cypress PSoC and WirelessUSB™ technologies.

AT THE HEART OF THE WORLD'S BEST PRODUCTS

CHILEAN RESCUE

ARIES CCV CAMERA
Cypress's PSoC chip is used inside this tiny camera that assisted in the dramatic 2010 rescue of 33 men trapped in a Chilean mine.

"PSoC is in 75% of our cameras. PSoC saved the camera design in many ways because it is small."

Yungky Tan
Senior Design Engineer
CCV/Aries Industries

MICROSOFT ARC TOUCH MOUSE

Cypress's CapSense solution powers the touch scroll strip on this unique foldable mouse.

BMW 5-SERIES SEDANS

Cypress's CapSense touch-sensing controllers are used in the radio interface on most late-model BMW automobiles.

EPSON STYLUS PX720WD

Cypress's CapSense controls the LED-based user interface on many Epson Stylus all-in-one photo printers.

ACER ICONIA NOTEBOOK PC

Cypress's TrueTouch solution drives the dual touchscreens on this notebook PC, named one of the year's hottest products at the Consumer Electronics Show.

"The TrueTouch solution delivered the low power and outstanding performance we demanded, along with the flexibility to implement our vision for this product."

David Lee
Assoc. VP, Mobile Computing, Acer

SAMSUNG WAVE 2 PHONE
The Samsung Wave 2 phone features a highly accurate touchscreen using Cypress's TrueTouch solution.

BARNES & NOBLE COLOR NOOK E-READER
The Barnes & Noble Color Nook e-reader, features an interactive large touchscreen powered by TrueTouch.

HTC 7 MOZART PHONE
Cypress's TrueTouch solution drives the touchscreen display on this cutting-edge smartphone.

ZTE ETHERNET SWITCHES

Cypress's 65-nm QDR™II (Quad Data Rate™) SRAM devices enable high-speed data access in the ZXCME 9500 series of Ethernet switches.

"The excellent speed and low latency of Cypress's SRAMs are instrumental in the outstanding performance that the ZXCME 9500 series offers our customers."

Li Hongqi
Product Development Manager, ZTE

Cypress Semiconductor Corporation 198 Champion Court, San Jose, CA 95134-1709
(408) 943-2600 www.cypress.com

© 2011 Cypress Semiconductor Corporation. All Rights Reserved. Trademarks are the property of their respective owners.
Printed in the U.S.A.