



CYPRESS[®]

EMBEDDED IN TOMORROW[™]

PROBLEM. MEET SOLUTION.

Solutions for the Connected World.



CONSUMER



INDUSTRIAL



AUTOMOTIVE

2017 ANNUAL REPORT

Dear Shareholders,

2017 marked the start of an exciting chapter for Cypress. It was the first full year of driving our new Cypress 3.0 strategy focused on high-growth automotive, consumer and industrial markets, including all applications across the Internet of Things (IoT).

The great execution of our team helped us achieve 20% year-over-year revenue growth and significant progress in our long-term efforts to improve financial performance, exiting the year with gross margins above 45%, while doubling our cash flow compared to 2016.

OUR GROWTH IS STRONG

The drivers of our strong revenue growth in 2017 are the same ones that we expect to continue propelling Cypress forward in 2018 and beyond.

The first growth driver was our Wireless IoT business, made up of the leading Wi-Fi and Bluetooth capabilities we acquired from Broadcom in July of 2016. Our IoT business exceeded all expectations in 2017 with revenue more than doubling since we closed the acquisition. As Wi-Fi and Bluetooth emerge to be the main connectivity standards for the IoT, Cypress is in a sweet spot, winning with our Wi-Fi and Bluetooth combo solution the most innovative customers in the most attractive market segments including smart home, industrial automation, wireless audio and wearable applications.

Cypress' second growth driver was Automotive, up 16% year-over-year as we expanded our content per vehicle and leveraged our strong brand reputation in this increasingly important market. Cypress wins with automotive OEMs and their established tier-one partners because they trust our proven commitment to quality, problem-solving expertise and technology portfolio to help them create connected vehicles that are smarter, safer and more secure than ever.

Our third growth driver was USB-C, which more than quadrupled in 2017, boosted by the start of a broad multi-year eco-system adoption across computing, smartphones and consumer electronics. We exited the year with the #1 global market share in USB-C with our differentiated products that have the performance, programmability, integration and support customers need. The future for USB-C is bright as we see tremendous design-in activities across a myriad of consumer, automotive, industrial and enterprise applications. Over the coming years, this broad market adoption will underscore what we've said from the start: "USB-C is the one connector to rule them all."

OUR PEOPLE ARE STRONG

Since I became CEO in August 2016, our team has fully embraced our Cypress 3.0 journey to become the embedded solutions leader for fast-growing markets and home to the world's most valuable problem solvers. To make this happen, we all focused on great execution and key priorities. I couldn't be prouder of the Cypress team. We've also become stronger at all levels by developing and keeping our talent, while bringing in world-class expertise. Now, Cypress attracts people that love solving complex problems to make a positive impact in the world. There's never been a better time for the kind of company we're building.

A YEAR OF EXECUTION

We executed well in 2017, delivering revenue of \$2.33 billion and growing earnings per share four times faster than revenue. Our sharp focus on leading in high value-add markets and exiting commodity businesses lifted gross margins to 42.2% in 2017, up 320 basis points from 39% in 2016. With solid revenue growth, improved margins and disciplined working capital management, Cypress delivered free cash flow of \$349 million in 2017, up 118% from 2016. In addition to our unwavering commitment to innovation and strategic R&D investments, we continue to return value to shareholders through a dividend that was yielding 2.9% at year-end.

OUR TIME IS NOW

We're in an exciting place... at the dawn of a new connectivity megatrend that will dwarf anything our industry has ever experienced, including the incredible boom of the smartphone era. Cypress will keep investing and winning to capture this massive opportunity with the world's best portfolio of IoT, consumer, automotive and industrial solutions. Our problem solvers are ready. Our momentum is strong. Our time is now.

Thank you for believing in the new Cypress.



Hassane El-Khoury

**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 December 31, 2017

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
(State or other jurisdiction of
incorporation or organization)

94-2885898
(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 2, 2017 as reported on the NASDAQ Global Select Market, was approximately \$3.6 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 15, 2018, 354,988,171 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the registrant's Annual Meeting of Stockholders to be filed pursuant to Regulation 14A for the year ended December 31, 2017 are incorporated by reference in Items 10 - 14 of Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1 Business	5
Item 1A Risk Factors	14
Item 1B Unresolved Staff Comments	32
Item 2 Properties	33
Item 3 Legal Proceedings	33
Item 4 Mine Safety Disclosures	33
PART II	
Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	34
Item 6 Selected Financial Data	39
Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 7A Quantitative and Qualitative Disclosure About Market Risk	61
Item 8 Financial Statements and Supplementary Data	63
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	141
Item 9A Controls and Procedures	141
Item 9B Other Information	142
PART III	
Item 10 Directors, Executive Officers and Corporate Governance	143
Item 11 Executive Compensation	143
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	143
Item 13 Certain Relationships and Related Transactions and Director Independence	144
Item 14 Principal Accountant Fees and Services	144
PART IV	
Item 15 Exhibits and Financial Statement Schedule	145
Item 16 Form 10-K Summary	145
Signatures and Power of Attorney	147

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 pursuit of long-term growth initiatives, including various long-term strategic corporate transformational initiatives, collectively referred to as our Cypress 3.0 strategy; expected improvements in margin and our ability to successfully execute on our margin improvement plan; our manufacturing strategy including our ability to efficiently manage our manufacturing facilities and achieve our cost goals emanating from our flexible manufacturing strategy; our ability to secure supply to meet customer demand, the anticipated impact of our acquisitions, dispositions and restructuring activities; anticipated growth opportunities in the automotive, consumer and industrial markets; our expectations regarding dividends and stock repurchases; our expectations regarding future technology transfers and other licensing arrangements; our efforts to license and/or monetize our intellectual property portfolio; our expectations regarding the timing and cost of our restructuring liabilities; our expectations regarding our active litigation matters and our intent to defend ourselves in those matters; the competitive advantage we believe we have with our patents as well as our proprietary programmable technologies and programmable products; our plans for our products, pricing, and marketing efforts, including the potential impact on our customer base if we were to raise our prices; our backlog as an indicator of future performance; our ability to pay down our indebtedness and continue to meet the covenants set forth in our debt agreements; the risk associated with our yield investment agreements; our foreign currency exposure and the impact exchange rates could have on our operating margins; the adequacy of our cash and working capital positions; the value and liquidity of our investments, including auction rate securities, other debt investments, and investments in privately-held companies; the impact of U.S. tax reform efforts; our ability to recognize certain unrecognized tax benefits within the next twelve months as well as the resolution of agreements with various foreign tax authorities; our investment strategy; the impact of interest rate fluctuations on our investments; the volatility of our stock price; the impact of actions by stockholder activists; the size and composition of our Board of Directors; the adequacy of our real estate properties; the utility of our non-GAAP reporting; the adequacy of our audits; the potential impact of our indemnification obligations; our plans to remediate the identified material weakness; and the impact of new accounting standards on our financial statements and our ability to recognize revenue. We use words such as “may,” “will,” “should,” “plan,” “anticipate,” “believe,” “expect,” “future,” “intend,” “estimate,” “predict,” “potential,” “continue,” 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. In addition, readers are cautioned not to place undue reliance on these forward-looking statements. 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 and consumers we serve and our investments; our ability to execute on our Cypress 3.0 strategy and our margin improvement plan; our ability to effectively integrate companies and assets that we acquire; our ability to attract and retain key personnel; our ability to timely deliver our proprietary and programmable technologies and products; the current credit conditions; our ability to retain and expand our customer base, which may be adversely affected if we were to raise our prices; 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; foreign currency exchange rates; our ability to efficiently manage our manufacturing facilities and achieve our cost goals emanating from our flexible manufacturing strategy; our ability to achieve our goals related to our restructuring activities; the

uncertainty and expense of pending litigation matters; our ability to pay down our indebtedness and continue to meet the covenants set forth in our debt agreements; our ability to manage our investments and interest rate and exchange rate exposure; changes in the law including changes to tax and intellectual property law; the results of our pending tax examinations; our ability to achieve liquidity in our investments; the failure or success of the privately-held companies that we are invested in; our ability to remediate any material weakness; and/or the materialization of one or more of the risks set forth above or under Part I, Item 1A (*Risk Factors*) in this Annual Report on Form 10-K.

PART I

ITEM 1. Business

General

Cypress manufactures and sells advanced embedded system solutions for automotive, industrial, home automation and appliances, consumer electronics and medical products. Cypress' microcontrollers, analog ICs, wireless and wired connectivity solutions and memories help engineers design differentiated products and help with speed to market. Cypress is committed to providing customers with quality support and engineering resources.

Cypress was incorporated in California in December 1982. Our stock is listed on the Nasdaq Global Select Market under the ticker symbol "CY".

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 2017 ended on December 31, 2017, fiscal 2016 ended on January 1, 2017, and fiscal 2015 ended on January 3, 2016.

Acquisitions & Divestitures

In March 2015, we completed a merger ("Merger") with Spansion Inc. ("Spansion") for a total consideration of approximately \$2.8 billion. Spansion was a leading designer, manufacturer and developer of embedded systems semiconductors with flash memory, microcontrollers, analog and mixed-signal products.

In August 2015, we completed the sale of the TrueTouch® mobile touchscreen business to Parade Technologies ("Parade") for total cash proceeds of \$98.6 million. Post-sale, we continued to provide TrueTouch® solutions to our automotive, industrial and home appliance customers.

In July 2016, we completed the acquisition of certain assets primarily related to the Internet of Things ("IoT") wireless business of Broadcom Corporation ("Broadcom") pursuant to an Asset Purchase Agreement with Broadcom dated April 28, 2016, for a total purchase consideration of \$550 million.

In March 2017, we completed the sale of our wafer fabrication facility in Minnesota. We recorded a gain of \$1.2 million in fiscal 2017 resulting from the change in the estimated costs to sell the assets.

Business Strategy

Our primary focus is profitable growth in our key markets. We plan to capitalize on our product portfolio to extend our penetration of global markets such as the automotive, industrial, communications, consumer, and computation markets. Our revenue model is based on the following product and market strategies: (a) focus on providing customers with complete solutions, including multiple Cypress products where applicable, and supporting software, (b) growing revenue from our programmable solutions and derivatives including PSoC®, Traveo™ and other microcontrollers in the automotive and industrial markets, (c) increasing our connectivity revenue through the introduction of new products such as Wi-Fi, Bluetooth® and, Bluetooth Low Energy, USB-C and USB Power Delivery solutions and SuperSpeed USB 3.0 peripheral controllers and (d) increasing profitability in our memory products by leveraging our market position and expanding our portfolio with new and complementary products primarily targeted at the automotive and industrial markets. We monitor our operating expenses closely to improve our operating leverage as driven by various company-wide initiatives.

During fiscal 2016, we launched various long-term strategic corporate transformation initiatives, collectively being referred to as Cypress 3.0 initiatives. Cypress 3.0 intends to increase our focus on becoming a solution-driven company, increase ease of doing business, redeploy personnel and resources to target markets segments that are expected to grow faster than the industry and streamline our internal processes.

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 Risk Factors.

Business Segments

We continuously evaluate our reportable business segments in accordance with the applicable accounting guidance. The Company operates under two reportable business segments: Microcontroller and Connectivity Division (“MCD”) and Memory Products Division (“MPD”).

Business Segments	Description
Microcontroller and Connectivity Division (“MCD”)	MCD focuses on high-performance microcontroller (MCU), analog and wireless and wired connectivity solutions. The portfolio includes Traveo™ automotive MCUs, PSoC® programmable MCUs and general-purpose MCUs with ARM® Cortex® -M4, -M3, -M0+ and R4 CPUs, analog PMIC Power Management ICs, CapSense® capacitive-sensing controllers, TrueTouch® touchscreen, Wi-Fi®, Bluetooth®, Bluetooth Low Energy and ZigBee® solutions and the WICED® development platform, and a broad line of USB controllers, including solutions for the USB-C and USB Power Delivery (PD) standards. MCD includes wireless connectivity solutions acquired from Broadcom effective July 5, 2016. This division also includes our intellectual property (IP) business. The historical results of MCD through July 29, 2016 include the results of Deca Technologies, Inc.
Memory Products Division (“MPD”)	MPD focuses on specialized, high-performance parallel and serial NOR flash memories, NAND flash memories, static random access memory (SRAM), F-RAM™ ferroelectric memory devices, non-volatile SRAM (nvSRAM), other specialty memories and timing solutions. This division also includes our subsidiary AgigA Tech Inc.

For additional information on our segments, see *Note 21* of the Notes to the Consolidated Financial Statements under Part II, Item 8.

Product Overview

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

Products	Markets	Applications
Traveo™ MCUs, Flexible MCUs, PSoC® MCUs, CapSense® capacitive-sensing controllers and Automotive TrueTouch® touchscreen controllers	Automotive, industrial, consumer, computation, white goods, communications	Automotive instrument clusters, body electronics, power management and infotainment systems, factory automation, machine-to-machine systems, building management systems, smart meters, printers, industrial and automotive control applications, digital still and video cameras, smart home appliances, handheld devices and accessories, desktop and notebook PCs and peripherals, medical devices, white goods and many other applications.
Analog PMICs and energy harvesting solutions	Automotive, industrial, consumer	Instrument cluster systems, Advanced Driver Assistance Systems (ADAS), body control modules, factory automation, IoT beacons, wireless sensor nodes and many other applications.
Wi-Fi®, Bluetooth®, Bluetooth Low Energy and ZigBee®	Automotive, industrial, consumer, white goods, PC peripherals	IoT applications, wearables, smart home appliances, industrial automation equipment, connected cars, mice, appliances, keyboards, wireless headsets, consumer electronics, gamepads, remote controls, toys, presenter tools and many other applications.
EZ-PD™ controllers for USB-C with Power Delivery and USB controllers	Industrial, handset, PC and peripherals, consumer electronics, mobile devices, automotive	Printers, cameras, machine vision and other industrial equipment, mice, keyboards, handheld devices, gamepads and joysticks, VoIP phones, headsets, presenter tools, dongles, point of sale devices and bar code scanners, PCs and peripherals smartphones, USB-C power adapters, USB-C adapter cables, monitors, docking stations and many other applications.

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

Products	Markets	Applications
NOR Flash and HyperFlash™	Automotive, industrial, consumer	Automotive advanced driver assistance systems (ADAS), automotive instrument cluster, automotive infotainment systems, security systems, industrial control and automation systems, networking routers and switches and many other applications.
NAND Flash	Automotive, industrial, consumer	Automotive instrument cluster, automotive infotainment systems, set-top boxes, networking equipment, point-of-sale systems, security systems, industrial control and automation systems, smart home appliances and many other applications.
HyperRAM™	Automotive, industrial	Automotive instrument cluster, factory automation, industrial control and automation systems, home automation and appliances, handhelds and many other application.
Asynchronous SRAMs	Automotive, consumer, networking, industrial	Consumer electronics, switches and routers, test equipment, automotive and industrial electronics.
Synchronous SRAMs	Telecommunications, networking	Enterprise routers and switches, wireless base stations, high bandwidth applications and industrial and defense electronics.
nvSRAMs	Networking, industrial	Point of sale terminals, set-top boxes, copiers, industrial automation, printers, single-board computers Redundant array of independent disk (RAID) servers, and gaming.
F-RAMs	Automotive, medical	Smart meters, aerospace, medical systems, automotive, industrial controls, electronic point-of-sale terminals, printers and wireless (RFID) memory.

Products	Markets	Applications
Specialty Memories and Clocks	Networking, telecommunication, video, data communications, computation	Medical and instrumentation, storage, wireless infrastructure, military communications, Video, data communications, telecommunications, and network switching/routing, set-top boxes, copiers, printers, HDTV, Industrial automation, printers, single-board computers, IP phones, image processors and base stations.

Manufacturing

Our “flexible manufacturing” strategy combines capacity from external foundries with output from our internal manufacturing facilities which allows us to meet swings in customer demand while limiting capital expenditure requirements and lessening the burden of high fixed costs, a capability that is important with our rapidly evolving product portfolio.

As of the end of fiscal year 2017, we owned a wafer fabrication facility in Austin, Texas. External wafer foundries, mainly in Asia, manufactured approximately 63% of our wafers. We expect that purchase of wafers as a percentage of our total wafer consumption from our wafer foundry partners will increase in 2018.

We conduct assembly and test operations at our back-end manufacturing facilities in Cavite, Philippines and Bangkok, Thailand, manufacturing volume products and packages, which contribute to better leverage of manufacturing cost. These facilities account for approximately 28% of the total assembly output and 38% of the total test output. Various subcontractors in Asia perform the balance of the assembly and test operations.

We have manufacturing services agreements primarily with the following partners:

- Advanced Semiconductor Engineering, Inc. (“ASE”)—Agreements for assembly and test services;
- Deca Technologies Inc.—Agreement for manufacturing services.
- Fujitsu Semiconductor Limited—Agreements for the supply of product wafer foundry services, sort services and assembly and test services;
- HuaHong Grace Semiconductor Manufacturing Corporation (“Grace”)—Agreement for foundry services;
- Semiconductor Manufacturing International Corporation (“SMIC”)—Agreements for foundry services;
- SK Hynix Inc. (“SK Hynix”)—Agreements for development and supply of certain products;
- Skywater Technologies Inc.—Agreement for foundry services;
- Taiwan Semiconductor Manufacture Company (“TSMC”)—Agreement for foundry services;
- United Microelectronics Corporation (“UMC”)—Agreement for foundry services;
- United Test and Assembly Center Ltd—Agreement for assembly and test services; and
- Wuhan Xinxin Semiconductor Manufacturing Corporation (“XMC”)—Agreement for foundry services;

Research and Development

Our research and development (“R&D”) efforts are focused on the development and design of new semiconductor products, design methodologies, as well as the continued development of advanced software platforms. Our R&D organization works with our manufacturing facilities, suppliers and customers to improve our semiconductor designs and lower our manufacturing costs. During fiscal 2017, 2016 and 2015, R&D expenses totaled \$357.0 million, \$331.2 million and \$274.8 million, respectively.

Our R&D 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, Ireland, Germany, Israel, India, Japan and China.

Sales and Marketing

We sell our semiconductor products through several channels: distributors; manufacturing representative firms; and sales by our sales force directly to original equipment manufacturers and their suppliers.

Our marketing activities target customers, reference design houses and our potential partners; and include a combination of direct marketing activities, such as trade shows, events and sponsored activities. 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 identify emerging markets and new products.

Outstanding accounts receivable from Fujitsu Electronics Inc., one of our distributors accounted for 28% of our consolidated accounts receivable as of December 31, 2017 and 24%, of our consolidated accounts receivable as of January 1, 2017.

Revenue generated through Fujitsu Electronics Inc. and Arrow Electronics, two of our distributors, accounted for 20% and 13%, respectively, of our consolidated revenues for fiscal 2017. Revenue generated through Fujitsu Electronics Inc., one of our distributors, accounted for 23% of our consolidated revenues for fiscal 2016 and 25% of our consolidated revenues for fiscal 2015. Avnet, Inc., one of our distributors, accounted for 10% of our consolidated revenues for fiscal 2015. No other distributors or customers accounts for 10% or more of our 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. Although we have entered into long-term supply agreements with certain customers, products to be delivered and the related delivery schedule under these long-term contracts are frequently revised. Accordingly, 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 this industry. This environment is characterized by the potential erosion of 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;
- overall success with which our customers market and sell their products and solutions that incorporate our products; 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 automotive, industrial, communications, consumer, computation, data communications and mobile markets. Companies that compete directly with our businesses include, but are not limited to, Adesto, Everspin Technologies, Fujitsu, GigaDevice Semiconductor, GSI Technology, Hynix, Integrated Device Technology, Integrated Silicon Solution, Lattice Semiconductor, Macronix, Marvell, MediaTek, Microchip Technology, Micron Technology, Nordic Semiconductor, NXP Semiconductors NV, Qualcomm, Realtek, Renesas, Richtek, Semtech, Silicon Laboratories, ST Microelectronics, Texas Instruments, Toshiba, VIA Labs, and Winbond.

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 to 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 liabilities 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; and
- 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.

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 2017, we had approximately 3,600 issued patents and approximately 700 additional patent applications on file domestically and internationally. In addition, in fiscal 2018 we are preparing to file up to 40 new patent applications in the United States and up to approximately 50 foreign application predominantly in Europe and Asia. The average remaining life of our domestic patent portfolio is approximately 8.5 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, defend our position in existing markets and to facilitate the entry of our proprietary products 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 and discover third-party infringement of our intellectual property. Patent litigation, if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources. 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.

We perform an analysis of our intellectual property portfolio on an on-going basis to ensure we are deriving the full value of our assets. Accordingly, we continue to evaluate certain unaligned patents as well as other monetization models for our patent portfolio. In August 2016, we entered into a series of agreements to divest a large number of older, legacy patents that were not relevant to our current business. Divestiture of these patents will reduce our operating expenses (associated with our patent portfolio) and may lead to future contingent revenue.

Employees

As of December 31, 2017, we had 6,099 employees. Geographically, 1,946 employees were located in the United States, 1,025 employees were located in Thailand, 910 employees were located in Philippines, 567 employees were located in India, 532 employees were located in Japan, 447 employees were located in Greater China, 244 employees were located in Europe, and 428 employees were located in other countries. Of the total employees, 3,405 employees were associated with manufacturing, 1,537 employees were associated with research and development and 1,157 employees were associated with selling, general and administrative functions.

Executive Officers of the Registrant as of December 31, 2017

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Hassane El-Khoury	38	President, Chief Executive Officer and Director
Thad Trent	50	Executive Vice President, Finance and Administration, Chief Financial Officer
Sudhir Gopalswamy . . .	48	Executive Vice President, Microcontroller and Connectivity Division
Sam Geha	52	Executive Vice President, Memory Products Division
Pamela Tondreau	58	Executive Vice President, Chief Legal and Human Resource Officer, Corporate Secretary

Hassane El-Khoury was named President, Chief Executive Officer and Director at the Company in August 2016. Mr. El-Khoury served as Executive Vice President, Programmable Systems Division, which is now part of the Microcontroller & Connectivity Division (MCD), from 2012 until his appointment as President and Chief Executive Officer. From 2010 to 2012, Mr. El-Khoury served as Senior Director of the Company's Automotive Business Unit. Prior to joining the Company, from 1999 to 2007, Mr. El-Khoury served as Senior Design Engineer at Continental Automotive Designs, a German automotive manufacturing company specializing in tires, brake systems, interior electronics, automotive safety, powertrain and chassis components, tachographs, and other parts for the automotive and transportation industry. Mr. El-Khoury holds a Bachelor of Science degree in Electrical Engineering from Lawrence Technological University and a Master of Sciences degree in Engineering Management from Oakland University.

Thad Trent has been the Chief Financial Officer and Executive Vice President of Finance & Administration at the Company since June 2014. Mr. Trent joined Cypress in 2005 and had been Vice President of Finance since 2010. Prior to serving as the Chief Financial Officer at the Company, he led the strategic planning functions for the Company's business units and worldwide operations and he managed the financial reporting, accounting, and planning and analysis functions for the Company. Before joining the Company, Mr. Trent, held finance leadership roles at publicly traded companies Wind River Systems and Wyle Electronics, as well as two technology startups. He also serves as a director on AgigA Tech, Inc., a Company subsidiary, and Deca Technologies, Inc., a majority-owned Company subsidiary. Mr. Trent earned his Bachelor of Science in Business Administration and Finance at San Diego State University.

Sudhir Gopalswamy was named Executive Vice President of the Microcontroller and Connectivity Division (MCD) at the Company in February 2018, having previously been named as the Senior Vice President of MCD in September 2016, for which he is responsible for all aspects of the MCD business. Mr. Gopalswamy joined the Company in 2008 and has managed a variety of business units, including the Timing Solutions Business Unit, the Synchronous SRAM Business Unit and most recently the MCU Business Unit, where he also served as a Senior Vice President. Prior to joining the Company, Mr. Gopalswamy worked at Conexant, where he was responsible for the cable set-top box product line. Before Conexant, he spent nine years at Intel Corporation, during which he held management and leadership roles of increasing responsibility, spanning the computing, communications/networking and consumer electronics segments. Mr. Gopalswamy holds a BSEE in Electrical Engineering from Purdue University and an MBA from Duke University.

Sam Geha, Ph.D., was named Executive Vice President of the Memory Product Division at the Company in February 2018, having previously been named as the Senior Vice President of the Memory Product Division in September 2016. Previously, he was named as the Senior Vice President of the Intellectual Property (IP) Business Unit in June 2015, having managed the IP Business Unit since June 2013, where he oversaw licensing of the Company's various embedded nonvolatile memory technologies (SONOS and eCT) to foundries, including UMC, HLMC and HH-Grace, as well as licensing the Company's 3D NAND technology to XMC. Prior to that, he was the Vice President of the Technology R&D organization since May 2007. He also serves as a board member of Enovix, a Silicon-based Lithium Ion battery start-up. Mr. Geha joined the Company in 1995 and has served as the senior director of technology development for SONOS and the director of technology development for MRAM and SRAM technologies. Prior to joining the Company, he worked in various technology development functions at Motorola and National Semiconductor. Mr. Geha holds a bachelor of science degree in electrical engineering (BSEE), a master of science in electrical engineering (MSEE) and a philosophical doctorate in electrical engineering (Ph.D.) from the University of Arizona.

Pamela L. Tondreau was named Executive Vice President, Chief Legal and Human Resources Officer, and Corporate Secretary at the Company in February 2018, having previously been named as the Chief Legal and Human Resources Officer in November 2017. Ms. Tondreau has continued to

serve as the Corporate Secretary, having previously been named as the Chief Legal Officer and Corporate Secretary in September 2016. She joined the Company in 2014, and began serving as the Senior Vice President, General Counsel and Corporate Secretary in January 2015. Prior to joining the Company, Ms. Tondreau spent 13 years at Hewlett-Packard Company (now HP Inc.) in various roles, including Chief Intellectual Property Counsel and Deputy General Counsel to the Chief Technology Officer, HP Labs, HP Networking, IP Licensing, Strategic Initiatives and Global Alliances. In addition, she supported the Chief Marketing Officer, the Chief Information Officer and the Executive Vice President of Personal Systems, as well as serving as Corporate Secretary to the Technology Committee of Hewlett-Packard's board of directors. Prior to her time at Hewlett-Packard, Ms. Tondreau was an associate at the law firm of Thelen, Marrin, Johnson & Bridges (now Thelen LLP), serving as both a litigation and corporate attorney. Ms. Tondreau holds a bachelor's degree from U.C. Berkeley and a J.D. from McGeorge School of Law.

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"). By referring to our website, we do not incorporate such website or its contents into this Annual Report on Form 10-K.

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

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. If any of our manufacturing partners, customers, distributors or suppliers experience serious financial difficulties or cease operations, our business will be adversely affected. In addition, the adverse impact of an unfavorable economy on consumers, including high unemployment rates, may adversely impact consumer spending, which will adversely impact demand for products such as certain end products in which our products are embedded. In addition, prices of certain commodities, including oil, metals, grains and other food products, 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 may result from weakness in the general global economy, 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:

- Revenue fluctuations due to unexpected shifts in customer demand;
- Announcements about our earnings or the earnings of our competitors that are not in line with analyst expectations;
- Our ability to execute on our long term strategic corporate transformation initiatives, collectively known as our Cypress 3.0 initiatives, and our gross margin improvement plan;
- Credit conditions and our ability to refinance our existing debt at commercially reasonable terms, which may limit the Company's working capital;
- 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 (including recent trends toward consolidation 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 senior management;
- Changes in governmental regulations or in the status of our regulatory compliance that impact our business;
- Recommendations by securities analysts or changes in earnings estimates concerning us or our customers or competitors;
- 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;
- Changes in our policy regarding dividends or our ability to declare a dividend;
- Changes in our policy regarding stock repurchases or our ability to repurchase shares of our common stock;
- Supply disruption or price increases from third-party manufacturing partners;
- Our ability to generate sufficient cash flow to repay debt and
- Litigation, including any disputes or legal proceedings associated with activist investors.

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

We incur indebtedness to finance our operations and we have substantial amounts of outstanding indebtedness and debt service requirements. Our credit facility contains customary affirmative, negative and financial covenants, including a maximum total leverage ratio and a minimum fixed charge coverage ratio. Our ability to meet our payment and other obligations and covenants 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 any indebtedness we may incur from time to time. If we are not able to generate sufficient cash flow to service our debt obligations or meet required debt covenants, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. There is no assurance that we will be able to implement any of these alternatives on commercially reasonable terms, if at all. 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. In addition, an inability to meet our payment obligations under any indebtedness may trigger a default, and possible acceleration of payment terms, under the applicable debt financing agreements.

Furthermore, the interest rate on certain of these instruments is tied to short term interest rate benchmarks including the Prime Rate and LIBOR. Interest rates have remained at historically low levels for a prolonged period of time and we expect interest rates to rise in the future. If the rate of interest we pay on our borrowings increases it would increase our debt-related expenditures. 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 (including any increased interest payment obligations) under any indebtedness we may incur from time to time.

As of December 31, 2017, our outstanding debt, net of cost, primarily included:

- \$90.0 million related to our Senior Secured Revolving Credit Facility
- \$495.4 million
Term Loan B
- \$131.4 million of our 2% 2023 Exchangeable Notes
- \$246.6 million of our 4.5% 2022 Senior Exchangeable Notes and
- \$20.4 million of our 2% 2020 Spansion Exchangeable Notes

See *Note 14* of the Notes to the Consolidated Financial Statements for more information regarding our debt obligations.

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

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 industry depends on many factors, including:

- our ability to successfully execute on our long term strategic corporate transformation initiatives, collectively known as our Cypress 3.0 initiatives;
- 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, and our ability to meet the specification requirements of our customers;
- the willingness of our customer base to absorb any increase in the price that we sell our products;
- the pace at which customers incorporate our products into their systems, as is sometimes evidenced by design wins;
- 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 success in developing and introducing firmware in a timely manner;
- our customer service and customer satisfaction;
- our ability to successfully execute our flexible manufacturing strategy;
- the number, strength and nature of our competitors, the markets they target and the rate and success of their technological advances;
- the success of certain of our development activity including our investments in internal and external development stage startups;
- our ability to get competitive terms with our vendors, manufacturing partners and suppliers;
- general economic conditions;
- the cyclical nature of the semiconductor industry;
- our ability to maintain supply of products from third party manufacturers; 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 our industry (including recent trends toward consolidation 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.

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:

- automotive applications including advanced driver assistance systems (ADAS), instrument clusters, infotainment systems, body electronics, connectivity, HVAC controls, event data recorders;
- industrial systems including factory automation equipment, smart electric meters, aerospace, industrial controls, point-of-sale terminals and test equipment;
- Wireless products including smart home applications, health and fitness, audio, automotive, medical device and industrial devices;
- consumer electronics including wearable electronics, smartphones and other mobile devices, gaming consoles, game-pads, remote controls, toys, presenter tools, TVs, set-top boxes and fitness equipment;
- wireless telecommunications equipment;
- computers and computer-related peripherals;
- medical equipment; and
- networking equipment.

Any downturn, shift in product launch schedule or reduction in the growth of these industries could seriously harm our business, financial condition and results of operations. Further, pricing in the semiconductor industry is subject to significant volatility. As an example, pricing of memory products during fiscal 2017 was significantly impacted by industry conditions. We may be unable to anticipate or manage price volatility which may adversely impact our margins, market share, financial condition and results of our 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 canceled under many circumstances. Because our markets can be volatile, based on consumer demand and subject to rapid technological changes, our forecasts may be inaccurate, causing us to make too many or too few of certain products.

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. In addition, demand for our products could be materially different from our expectations due to changes in customer order patterns, including order deferrals or cancellations. If we experience inadequate demand, order cancellations, 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.

If we fail to develop, introduce and sell new products or fail to develop and implement new technologies, our ability to compete in our end markets will suffer and our financial results could be adversely impacted.

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 PSoC® products, our wireless connectivity products, USB-C, and Traveo™ microcontroller products, are an important strategic focus for us and therefore, they tend to consume a significant amount of our resources. The new products the market requires tend to be increasingly complex, incorporating more functions including software and security and operating at faster speeds than old products.

Increasing complexity generally requires additional features on a smaller chip. This makes manufacturing new generations of products substantially more difficult, more costly and more time consuming 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 or technologies in a timely manner, or are unable to manufacture products according to these design requirements, or if our customers do not successfully introduce new systems or products incorporating our products or if 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.

Manufacturing semiconductors is a highly complex and precise process, requiring production in tightly controlled, clean-room environments. 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 products to be rejected and 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, a reduction in available wafer supply, the failure to achieve acceptable manufacturing yields, or the inability to achieve acceptable levels of quality and security in our products as expected by our customers, including our customers in the automotive industry, 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. This risk may be exacerbated by our recent divestiture and future divestitures of any of our manufacturing facilities, as we would be increasing our reliance on third-party partners in that situation.

In March 2017, we completed the sale of our semiconductor wafer fabrication facility in Bloomington, Minnesota. The purchaser intends to operate the fabrication facility as a stand-alone business that will manufacture wafers for Cypress and for other semiconductor manufacturers. Although this transaction allows us to reduce our manufacturing footprint, it will increase our reliance on third-party suppliers. Accordingly, if the new owner of our Bloomington fabrication facility is unable to effectively operate the facility, faces financial difficulty, or is otherwise unable to meet our product demands, our supply of components may be adversely affected. Such events could lead to difficulties in delivering products to our customers on time and have a negative impact on our revenue and financial results.

We may also experience manufacturing problems in our assembly and test operations (or the assembly and test operations of third-party partners) and in the introduction of new packaging materials.

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

We rely significantly on independent contractors to manufacture, which includes assembly of, our products. In addition, in March 2017, we divested our manufacturing facility located in Minnesota, which reduces our internal manufacturing capacity.

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. Suppliers may extend lead times, limit supplies or increase prices due to commodity price increases, capacity constraints or other factors, which may lead to interruption of supply which could materially harm our results of operations. 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 experiences financial difficulty and we are unable to arrange a satisfactory alternative to fulfill customer orders on a timely basis and in a cost-effective manner. There are also 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, yield issues or incur additional costs. Shipments could be delayed significantly while these sources are qualified for volume production.

While many of our products are assembled, packaged and tested at our manufacturing facilities located in the Philippines and Thailand, 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 foundry partners and assembly and test subcontractors have operations in locations that may suffer the impact of certain natural disasters and political risk, which could impact their ability to provide us with our products. We monitor these events closely, but if one of our third-party manufacturing partners were to suffer significant damage to its operations as a result of a natural disaster or other catastrophic events, our ability to timely meet consumer demand would suffer which would materially harm our results of operations.

Our channel partners include distributors and resellers. We continue to expand and change our relationships with our distributors. Worldwide sales through our distributors accounted for approximately 73% of our net sales in fiscal year 2017. 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 revenue and results of operations. Our contracts with our distributors may be terminated by either party upon notice. The termination of a significant distributor or a reseller could (a) impact our revenue and limit our access to certain end-customers, (b) result in the return of a material amount of inventory held by the distributor or reseller that we may not be able to resell or have to resell at a loss, and (c) jeopardize

our ability to collect accounts receivable originating through that distributor or reseller. In addition, our distributors are located all over the world and are of various sizes and financial strength. Any disruptions to our distributors' operations such as lower sales, lower earnings, debt downgrades, the inability to access capital markets and/or 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.

We may not be able to consume minimum commitments under our "take or pay" agreements, which may have a material adverse impact on our earnings.

We have entered into agreements with certain vendors that include "take or pay" terms. Take or pay terms obligate us to purchase a minimum required amount of services or make specified payments in lieu of such purchase. We may not be able to consume minimum commitments under these take or pay terms, requiring payments to vendors, which may have a material adverse impact on our earnings.

Failures in our products or in the products of our customers including those resulting from security vulnerabilities, defects or errors, could harm our business.

The use of devices containing our products to access untrusted content create a risk of exposing the products into viral or malicious risks. While we continue to focus on this issue and are taking measures to safeguard our products from cybersecurity threats, device capabilities continue to evolve, enabling more data and processes, such as computing, and increasing the risk of security failures. Further, our products are inherently complex and may contain defects or errors that are detected only when the products are in use. The design process interface in new domains of technology and the migration to integrated circuit technologies with smaller geometric feature sizes are complex and add risk to manufacturing yields and reliability. Further, manufacturing, testing, marketing and use of our products and those of our customers entail the risk of product liability. Because our products and services are responsible for critical functions in our customers' products, security failures, defects or errors in our products or services could have an adverse impact on us, on our customers and/or on the end users of our customers' products. Such adverse impact could include product liability claims or recalls, write-offs of our inventories, property, plant and equipment and/or intangible assets; unfavorable purchase commitments; a shift of business to our competitors; a decrease in demand for our products; damage to our reputation and to our customer relationships; and other financial liability or harm to our business. Further, security failures, defects or errors in the products of our customers could have an adverse impact on our results of operations and/or cash flows due to a delay or decrease in demand for our products generally.

System security risks, data protection or privacy breaches, cyber-attacks and systems integration issues could disrupt our internal operations and/or harm the reputation of the Company, and any such disruption or harm could cause a reduction in our expected revenue, increase our expenses, negatively impact our results of operation or otherwise adversely affect our stock price.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential and proprietary information, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities

could be significant, and our efforts to address these problems may not be successful and could result in interruptions and delays that may impede our sales, manufacturing, distribution or other critical functions.

We manage and store various proprietary information and sensitive or confidential data relating to our business on the cloud. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our IT infrastructure also may experience interruptions, delays or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive and resource-intensive than originally anticipated. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins or lost customers resulting from these disruptions have adversely affected us in the past, and in the future, could adversely affect our financial results, stock price and reputation.

We are in the process of implementing our worldwide business application suite, and difficulties, distraction or disruption may interrupt our normal operations and adversely affect our business and operating results.

During fiscal year 2017, we devoted significant resources to the upgrade of our worldwide business application suite from Oracle's version 11i to Oracle's version R12. We plan to go live with the upgrade in Q1 fiscal 2018. As a result of our transition to the new business application suite, we may experience difficulties with our systems, lack of visibility into our business operations and results, and significant business disruptions. Difficulties with our systems may interrupt our normal operations, including our enterprise resource planning, forecasting, demand planning supply planning, inter-company processes, internal financial controls, pricing, and our ability to provide quotes, process orders, ship products, provide services and support to our customers, bill and track our customers, fulfill contractual obligations, and otherwise run and track our business. Any difficulty or disruption may adversely affect our business and operating results.

Changes in U.S. and international tax legislation and tax policy 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. In the past, tax administrations globally have considered initiatives which could substantially eliminate utilization or reduce our ability to claim net operating losses and foreign tax credits, and eliminate various tax deductions. 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 income tax, and from time to time, examinations by the U.S. Internal Revenue Service, U.S. local tax administrations, and similar proceedings in foreign jurisdictions in which we do business. As a result, we may incur additional costs and expenses, and owe additional taxes, interest and penalties which will negatively impact our operating results and cash flows. The results of these U.S. and certain foreign jurisdiction examinations may also decrease our current estimate of unrecognized tax benefits.

Tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. The U.S. recently enacted significant tax reform. We are still evaluating the

impact, but certain provisions such as the base erosion anti-abuse tax provision of the new law may adversely affect us. The Organization for Economic Co-operation and Development, or OECD, also recently released guidance covering various topics, including country-by-country reporting, definitional changes to permanent establishment and Base Erosion and Profit Shifting, or BEPS, an initiative that aims to standardize and modernize global tax policy. Depending on the final guidance, if any, there may be significant consequences for the Company due to the large scale of our international business activities.

If the tax incentive or tax holiday arrangements we have negotiated in Malaysia, the Philippines and Thailand change or cease to be in effect or applicable, in part or in whole, for any reason, or if our assumptions and interpretations regarding tax laws and incentive or holiday arrangements prove to be incorrect, the amount of corporate income taxes we have to pay could significantly increase.

We have structured our operations to maximize the benefit from various tax incentives and tax holidays extended to the Company in various jurisdictions to encourage investment or employment. Each tax incentive is separate and distinct from the others, and may be granted, withheld, extended, modified, truncated, complied with or terminated independently without any effect on the other incentives. The tax incentives are presently scheduled to expire at various dates generally beginning in 2018, subject in certain cases to potential extensions, which we may or may not be able to obtain. Absent these tax incentives, the corporate income tax rate in these jurisdictions that would otherwise apply to us would be between 20% and 30%. The tax incentives that we have negotiated are also subject to our compliance with various operating and other conditions. If we cannot, or elect not to, comply with the operating conditions included in any particular tax incentive, we will lose the related tax benefits and we could be required to refund previously realized material tax benefits. Depending on the incentive at issue, we could also be required to modify our operational structure and tax strategy, which may not be as beneficial to us as the benefits provided under the present tax concession arrangements. Our interpretations and conclusions regarding the tax incentives are not binding on any taxing authority, and if our assumptions about tax and other laws are incorrect or if these tax incentives are substantially modified or rescinded we could suffer material adverse tax and other financial consequences, which could adversely affect our cash flows.

We have identified a material weakness in our internal control over financial reporting that, if not remediated, could adversely affect investor confidence and our business, results of operations and stock price.

As disclosed in Item 9A of this report, we identified a material weakness in our internal control over financial reporting as of December 31, 2017 related to management's controls over accounting for stock-based compensation, especially the controls over the accounting for our employee stock purchase plan (ESPP). A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness identified, our management concluded that our internal control over financial reporting was not effective as of December 31, 2017. We are actively engaged in implementing a remediation plan designed to address this material weakness. However, we cannot provide any assurance that these remediation efforts will be successful or that our internal control over financial reporting will be effective as a result of these efforts. If our remediation measures are insufficient to address this material weakness, or if additional material weaknesses in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements, which could require us to restate our consolidated financial statements. Any restatement of our consolidated financial statements could negatively impact investor confidence and could lead to litigation against us, which could be time-consuming, costly or divert significant operational resources, any of which could adversely affect our business, results of our operations and stock price.

We may dispose of certain businesses, product lines or assets, which could adversely affect our results of operations and liquidity.

From time to time, we may divest certain businesses, product lines or assets, both acquired or otherwise, that are no longer strategically important, or we may exit minority investments, which could materially affect our cash flows and results of operations. If we decide to divest a business, product line or assets, we may encounter difficulty in finding or completing such divestiture opportunity (or alternative exit strategy) on acceptable terms or in a timely manner. These circumstances could delay the achievement of our strategic objectives or cause us to incur additional expenses with respect to the business, product line or assets that we seek to dispose. In addition, any delay in the timing of a divestiture transaction may negatively impact our business operations or liquidity for a period of time. Alternatively, we may dispose of businesses, product lines or assets at prices or on terms that are less favorable than we had anticipated. Even following a divestiture, we may be contractually obligated with respect to certain continuing obligations to customers, vendors, landlords or other third parties. Accordingly, we may be dependent on the new owner (of such business, product line or manufacturing facility) to fulfill our continuing obligations to our customers. We may also have continuing obligations for pre-existing liabilities related to the divested assets or businesses. Such obligations may have a material adverse impact on our results of operations and financial condition. Any such dispositions could also result in disruption to other parts of our business, potential loss of employees or customers (especially if the new owner is unable or unwilling to assist us in fulfilling any continuing obligations to our customers), potential loss of revenue, negative impact on our margins, exposure to unanticipated liabilities or result in ongoing obligations and liabilities to us following any such divestiture. We may also incur significant costs associated with exit or disposal activities, related impairment charges, or both.

We cannot be assured that our restructuring initiatives will be successful.

From time to time, we have implemented restructuring plans to reduce our operating costs and/or shift our expenditures to different areas of our business. However, if we have not sufficiently reduced operating expenses or if revenues are below our expectations, we may be required to engage in additional restructuring activities, which could result in additional restructuring charges. These restructuring charges could harm our results of operations. Further, our restructuring plans could result in potential adverse effects on employee capabilities, on our ability to achieve design wins, and our ability to maintain and enhance our customer base. Such events could harm our efficiency and our ability to act quickly and effectively in the rapidly changing technology markets in which we sell our products. In addition, we may be unsuccessful in our efforts to realign our organizational structure and shift our investments and focus to our high-growth businesses.

Our financial results could be adversely impacted if privately-held companies (that we have invested in) fail to develop and successfully bring to market new and proprietary products.

We have made a financial commitment to certain investments in privately-held companies. Despite the significant amount of resources, we commit to these companies, there can be no guarantee that such businesses will perform as expected or at all, launch new products and solutions as expected or gain market acceptance. If these privately-held companies fail to introduce new products and solutions or successfully develop new technologies, or if customers do not successfully introduce new systems or products incorporating the products or solutions offered by these businesses or if market demand for the products or solutions offered by these businesses do not materialize as anticipated or if these privately-held companies are not able to raise capital to fund their operations, our business, financial condition and results of operations could be materially harmed as a result of impairment of the carrying value of our investments in such privately-held companies.

During the fourth quarter of fiscal 2017, we incurred an other-than-temporary impairment charge for our investment in Enovix Corporation.

Acquisitions and investments could result in operating difficulties, dilution, and other harmful consequences that may adversely impact our business and results of operations.

Acquisitions are an important element of our overall corporate strategy and use of capital. These transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include, but are not limited to:

- Diversion of management time and focus from operating our business to integration challenges;
- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire;
- Successfully transitioning the current customer, supplier, foundry and other partnering relationships of the acquired company;
- Implementation or remediation of controls, procedures, and policies at the acquired company;
- Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions;
- In the case of acquired companies with global operations, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries;
- Failure to successfully further develop the acquired business or technology;
- Liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities; and
- Pending litigation or other known or unknown claims in connection with the acquired company, including claims by stockholders for breach of fiduciary duties, terminated employees, customers, former stockholders, or other third parties.

Our failure to address these and other risks or other problems encountered in connection with our past or current acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally. Current and future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, or write-offs of goodwill, any of which could harm our financial condition or results. As a result, the anticipated benefit of any of our acquisitions may not be realized.

In 2016, we incurred a material impairment charge with respect to our goodwill, and we may in the future incur impairments in the value of our goodwill, intangibles and property, plant and equipment.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We test goodwill for impairment annually, and more frequently when events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In 2016, we conducted impairment testing on the goodwill in our legacy Programmable Solutions Division ("PSD") and recorded an impairment charge of \$488.5 million. In addition, our other long-lived assets which include

intangibles and property, plant and equipment are evaluated for impairments whenever events or changes in circumstances indicate the carrying value may not be recoverable. Either of these situations may occur for various reasons, including changes in actual or expected income or cash flow. During the fourth quarter of fiscal 2016 we have reorganized our reportable segments as a result of which goodwill was reallocated to new segments. We continue to evaluate current conditions to assess whether any impairment exists. Additional impairments could occur in the future if any of the following occur: market or interest rate environments deteriorate, significant adverse changes in business climate, unanticipated competition, loss of key customers, changes in technology, expected future cash flows of our reporting units decline, or reporting unit carrying values change materially compared with changes in respective fair values.

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 technical personnel to execute on the strategic initiatives of our business. 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 certain of our competitors, other companies, academic institutions, government entities and other organizations. Competition for such personnel, particularly in the Silicon Valley, is intense and we may not be successful in hiring or retaining new or existing qualified personnel. Furthermore, changes in immigration and work permit laws and regulations or the administration or enforcement of such laws or regulations can also impair our ability to attract and retain qualified personnel. Equity awards are critical to our ability to hire and retain such key personnel, and any reduction in the price of our common stock (and accordingly the value of such equity awards) may reduce the willingness of key personnel to remain employed by the Company. In addition, we may also need to significantly increase our cash-based compensation to retain such personnel.

Our business may also be impacted if we lose members of our senior management team. Any disruption in management continuity could impact our results of operations and stock price and may make recruiting for future management positions more difficult. In addition, changes in key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business. The loss of any of our key officers or other employees, or our inability to attract, integrate and retain qualified employees, could require us to dedicate significant financial and other resources to such personnel matters, disrupt our operations and seriously harm our operations and business.

If we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs in the future, we could be at a competitive disadvantage in the marketplace for qualified personnel.

Our compensation program, which includes cash and share-based compensation award components, has been instrumental in attracting, hiring, motivating, and retaining qualified personnel. Competition for qualified personnel in our industry is extremely intense, particularly for engineering and other technical personnel. Our success depends on our continued ability to attract, hire, motivate, and retain qualified personnel and our share-based compensation award programs provide us with a competitive compensatory tool for this purpose. The continued use of our share-based compensation program is necessary for us to compete for engineering and other technical personnel and professional talent. In the future, if we are unable to obtain stockholder approval of additional shares for our share-based compensation award programs, we could be at a competitive disadvantage in the marketplace for qualified personnel.

There can be no assurance we will continue to declare dividends.

Our Board of Directors previously adopted a policy pursuant to which the Company would pay quarterly cash dividends on our common stock. The declaration and payment of any dividend or distribution is subject to the approval of our Board and our dividend may be discontinued or reduced at any time. There can be no assurance that we will declare dividends or distributions in the future in any particular amounts, or at all. Future dividends or distributions, if any, and their timing and amount, may be affected by, among other factors, management's views on potential future capital requirements for strategic transactions, including acquisitions; earnings levels; contractual restrictions; our cash position and overall financial condition; debt related payments and commitments, including restrictive covenants which may limit our ability to pay a dividend or distribution; changes in tax or corporate laws; our ability to repatriate cash into the United States; stock repurchase programs; the need to invest in research and development or other parts of our business operations; and changes to our business model. Accordingly, our dividend or other distribution payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends or other distributions in any particular amounts or at all. A reduction in our dividend payments or a change in the tax treatment of future dividends could have a negative effect on our stock price.

We may have fluctuations in the amount and frequency of our stock repurchases and there can be no assurance that we will continue to repurchase shares of our stock.

In October 2015, our Board of Directors approved a new share repurchase plan pursuant to which we are authorized to repurchase our common stock in an aggregate amount not to exceed \$450 million. Although our Board of Directors has approved a share repurchase program, the share repurchase program does not obligate us to repurchase any specific dollar amount or number of shares. In addition, there can be no assurance that we will continue to repurchase shares of our stock in any particular amounts, or at all. The stock repurchase plan could affect the price of our stock and increase volatility and may be suspended or terminated at any time without prior notice and in compliance with legal and regulatory requirements, which may result in a decrease in the trading price of our common stock. Through the end of the 2016 fiscal year, we repurchased a total of 29.5 million shares for a total cost of \$239.2 million under the October 2015 stock repurchase plan. A substantial majority of these purchases were made prior to the start of our second quarter of 2016. In fiscal 2017, we did not repurchase any shares in open market under the stock repurchase plan.

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 our future results of operations. Correctly identifying the key factors affecting business conditions and predicting future events is inherently an uncertain process, especially in uncertain economic times. Given the complexity and volatility of our business, our analysis and forecasts have in the past and will likely in the future, prove to be incorrect. We offer no assurance that such predictions or analysis will ultimately be accurate, and investors should treat any such predictions or analysis with appropriate caution. Any analysis or forecast that we make which ultimately proves to be inaccurate may adversely affect our stock price.

Industry consolidation may lead to increased competition and may harm our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions in an evolving industry and as companies are acquired or are unable to continue operations. Industry consolidation may result in stronger companies that are better able to compete with us. This could have a material adverse effect on our business, operating results, and financial condition.

We may be unable to adequately protect our intellectual property rights.

The protection of our intellectual property rights, is essential to keeping others from copying the innovations that are critical 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 respected by third parties. 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 regulation in foreign countries which may afford less protection and/or result in increased costs to enforce such agreements or intellectual property rights. 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 may also from time to time be 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 when instituted against us, could result in substantial costs and a diversion of our management's attention and resources. In addition, in August 2016, we entered into a series of agreements to divest a large number of older, legacy patents. The divestiture of these patents may limit our ability to make certain legal claims, and to be successful, in future patent litigation.

We also rely on trade secret protection for our technology, in part through confidentiality and other written agreements with our employees, consultants and third parties. Through these and other written agreements, we attempt to control access to and distribution of our intellectual property documentation and other proprietary technology information. Despite our efforts to protect our proprietary rights, former employees, consultants or third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop a product with the same functionality as our technology. Policing unauthorized use of our intellectual property rights is difficult, and nearly impossible on a worldwide basis. Therefore, we cannot be certain that the steps we have taken or will take in the future will prevent misappropriation of our technology or intellectual property rights, particularly in foreign countries where we do business or where our technology is sold or used, where the laws may not protect proprietary rights as fully as do the laws of the United States or where the enforcement of such laws is not common or effective.

We may be involved in intellectual property litigation and face significant expenses as a result of ongoing or future litigation.

Other companies or entities also have commenced, and may again commence, actions seeking to establish the invalidity of our patents. While we intend to defend these actions vigorously, there is no guarantee of success, and such effort takes significant financial and time resources from the Company. In the event that one or more of our patents are challenged, a court or the United States Patent and Trademark Office (USPTO) may invalidate the patent(s) or determine that the patent(s) is not enforceable, which could harm our competitive position. If our patents are invalidated, or if the scope

of the claims in any of these patents is limited by a court or USPTO decision, we could be prevented from pursuing certain litigation matters or licensing the invalidated or limited portion of such patents. Such adverse decisions could negatively impact our future, expected revenue.

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. In addition, in August 2016, we entered into a series of agreements to divest a large number of older, legacy patents. The divestiture of these patents may limit our ability to make certain legal claims, and to be successful, in future patent litigation. For these and other reasons, intellectual property 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 be unable to obtain such a license on reasonable terms or at all. We believe we have meritorious defenses and claims in our current litigation and we intend to defend and pursue such claims vigorously. Unfortunately, such litigation and other claims are subject to inherent uncertainties and may negatively impact our business.

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. Our business could be negatively affected as a result of actions by activist stockholders.

We are a publicly traded company and our 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 losses 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"). We experienced a Section 382 Ownership Change upon the merge with Spansion. The resulting limitations accompanying the ownership change are reflected in our deferred tax assets with no permanent limitation in our ability to utilize our tax attributes.

The actions of activist stockholders, including any related legal proceedings, could adversely affect our business. Specifically:

- responding to common actions of an activist stockholder, such as public proposals and requests for special meetings, nominations of candidates for election to our board of directors, requests that certain executive officers or directors depart the Company, requests to make changes to internal business operations, requests to pursue a strategic combination or other transaction or other special requests, could disrupt our operations, be costly and time-consuming or divert the attention of our management and employees;
- perceived uncertainties as to our future direction in relation to the actions of an activist stockholder, including any perceived changes at the board or management level, may result in the loss of potential business opportunities or the perception that we are unstable and need to make changes, which may be exploited by our competitors and make it more difficult to attract and retain key personnel as well as consumers and service providers;
- actions of an activist stockholder, especially any legal proceedings, may divert management time and attention away from execution on the Company's business operations and cause the Company to incur significant costs, including expenses related to legal, public relations,

investment banking, and/or proxy advisory services—these expenses could have a material adverse impact on our financial results;

- the election to our Board of Directors of director candidates who are not supported by the Company, may create unnecessary conflict and instability on our board of directors; and
- actions of an activist stockholder may cause fluctuations in our stock price based on speculative market perceptions, unflattering media coverage, or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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, and test operations and certain finance operations located outside of the United States, 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, and the possibility of a deteriorating relationship with the United States;
- labor issues, including collective bargaining agreements;
- the impact of natural disasters on local infrastructures and economies;
- changes in local economic conditions;
- import and export controls;
- potential shortage of power supply;
- potential violations by our international employees or third party agents of international or U.S. laws relevant to foreign operations (such as FCPA); 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 are subject to many different environmental, data privacy, 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, conflict mineral and data privacy legislation, as well as the health and safety regulations related to our employees. Compliance with these regulations can be costly. There can be no assurance 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 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.

Proposed or new legislation and regulations could also significantly affect our business. There currently are a number of proposals pending before federal, state, and foreign legislative and regulatory

bodies. In addition, the new European General Data Protection Regulation (GDPR) will take effect in May 2018 and will apply to many of our products and services that provide service in Europe. The GDPR will include operational requirements for companies that receive or process personal data of residents of the European Union that are different than those currently in place in the European Union. For example, we may be required to implement measures to change our service or limit access to our service for minors under the age of 16 for certain countries in Europe that maintain the minimum age of 16 under the GDPR. We may also be required to obtain consent and/or offer new controls to existing and new users in Europe before processing data for certain aspects of our service. In addition, the GDPR will include significant penalties for non-compliance. Similarly, there are a number of legislative proposals in the United States, at both the federal and state level, that could impose new obligations in areas affecting our business, such as liability for copyright infringement by third parties. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services.

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, China and California. Other countries, including at the federal and state levels in the United States, are also considering similar laws and regulations. Certain electronic products that we maintain in inventory may be rendered obsolete if they are not in compliance with such laws and regulations, which could negatively impact our ability to generate revenue from those products. Although we cannot predict the ultimate impact of any such new laws and regulations, they will likely result in additional costs, or in the worst case decreased revenue, and could even require that we redesign or change how we manufacture our products. Such redesigns result in additional costs and possible delayed or lost revenue.

Regulations related to “conflict minerals” may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, the SEC adopted new requirements for companies that use certain minerals and metals, known as conflict minerals, in their products, whether or not these products are manufactured by third parties. These requirements require companies to perform diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. We have undertaken the necessary diligence to

determine whether such minerals are used in the manufacture of our products. However, the implementation of these requirements could adversely affect the sourcing, availability and pricing of such minerals if they are found to be used in the manufacture of our products. In addition, regardless of our findings, we will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. Since our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we

implement, which may harm our reputation. In such event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict mineral free.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be adversely affected if disrupted for any reason, including natural disasters such as earthquakes, tsunamis, floods, hurricanes, typhoons, telecommunication or information technology system failures, regulatory or political issues, power or water shortages, fires, extreme weather conditions, medical epidemics or pandemics or other man-made disasters or catastrophic events. While we maintain business interruption insurance for our primary foreign manufacturing operations, we are self-insured for any loss or damage to our primary manufacturing facility. As such, the occurrence of any of these business disruptions for us or our third-party manufacturers, partners or customers could result in significant losses, seriously harm our revenue and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults known for seismic activity. The manufacture of product components, the final assembly of our products and other critical operations are concentrated in certain geographic locations, including the Philippines, Thailand, Malaysia, China and India. We also rely on major logistics hubs primarily in Asia to manufacture and distribute our products. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and being consolidated in certain geographical areas is unknown. However, in the event of a major earthquake or other natural disaster or catastrophic event, our revenue, profitability and financial condition could suffer.

Changes to Board of Directors and senior management may disrupt our operations, our strategic focus or our ability to drive stockholder value.

Our future success depends, in part, upon our ability to retain key members of our senior management team and our Board of Directors (the “Board”) and to attract and retain other highly qualified personnel for our Board and senior management positions. Turnover may disrupt our operations, our strategic focus or our ability to drive stockholder value. If we fail to attract new skilled personnel for our Board and senior management positions, our business and growth prospects could be adversely impacted.

We have made certain indemnities to our officers and directors for which we have purchased insurance. If material liabilities were to arise in excess of our insurance coverage, our financial condition and results of operations could be materially impacted.

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. If we were required to pay a significant amount on account of these liabilities, or such liabilities were not covered by insurance coverage, our business, financial condition and results of operations could be seriously harmed.

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 2017:

<u>Location</u>	<u>Square Footage</u>	<u>Primary Use</u>
Owned:		
<u>United States:</u>		
San Jose, California	171,370	Administrative offices, research and development
Austin, Texas	1,294,000	Manufacturing, research and development and administrative offices
Colorado Springs, Colorado	72,000	Administrative offices, research and development
Lynnwood, Washington	67,000	Administrative offices, research and development
<u>Asia:</u>		
Cavite, Philippines	221,000	Manufacturing, research and development
Bangkok, Thailand	253,300	Manufacturing, research and development
Penang, Malaysia	175,900	Manufacturing, research and development and administrative offices

In fiscal 2017, we have added 105,300 square feet of leased space for research and development, administrative, 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

Information with respect to this item may be found in *Note 20* of Notes to the Consolidated Financial Statements under Item 8, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

On November 12, 2009, our common stock was 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:

	<u>Low</u>	<u>High</u>
Fiscal 2017:		
Fourth quarter	\$14.55	\$17.42
Third quarter	\$12.50	\$15.11
Second quarter	\$12.68	\$14.58
First quarter	\$10.99	\$14.98
Fiscal 2016:		
Fourth quarter	\$ 9.63	\$12.22
Third quarter	\$ 9.79	\$12.48
Second quarter	\$ 8.02	\$11.22
First quarter	\$ 6.30	\$ 9.73
Fiscal 2015:		
Fourth quarter	\$ 8.11	\$10.96
Third quarter	\$ 8.55	\$12.46
Second quarter	\$11.65	\$14.46
First quarter	\$13.39	\$16.25

As of February 15, 2018, there were approximately 1,300 registered holders of record of our common stock.

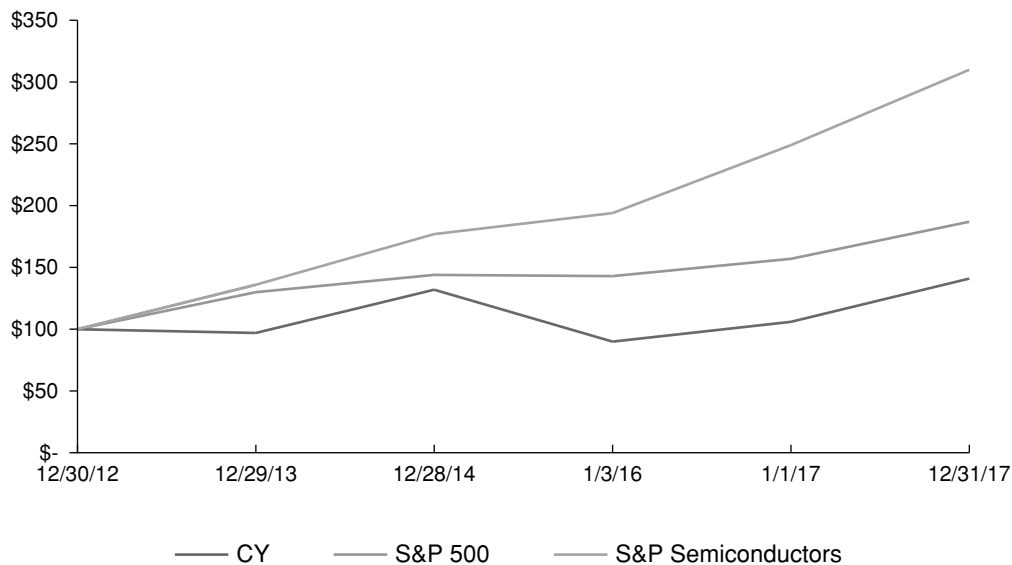
Dividends

During fiscal 2017, 2016 and 2015, we paid dividends of \$144.7 million, \$141.4 million and \$128.0 million, respectively, at a rate of \$0.11 per share of common stock paid in each quarter of the fiscal year.

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:

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Cypress Semiconductor Corporation, the S&P 500 Index, and the S&P Semiconductors Index



* \$100 invested on 12/30/12 in stock or 12/29/12 in index, including reinvestment of dividends. Indexes calculated on month-end basis.

	December 30, 2012	December 29, 2013	December 28, 2014	January 3, 2016	January 1, 2017	December 31, 2017
Cypress**	100.00	97.00	132.00	90.00	106.00	141.00
S&P 500 Index	100.00	130.00	144.00	143.00	157.00	187.00
S&P Semiconductors Index	100.00	136.00	177.00	194.00	249.00	310.00

** All closing prices underlying this table have been adjusted for cash dividends, stock splits and stock dividends.

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 December 31, 2017:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
	(In millions, except per-share amounts)		
Equity compensation plans approved by shareholders	9.8 (1)	\$12.8 (3)	46.5 (6)
Equity compensation plans not approved by shareholders	<u>6.8</u> (2)	<u>\$ 6.7</u> (4)	<u>2.8</u> (7)
Total	<u>16.6</u>	<u>\$11.6</u> (5)	<u>49.3</u>

(1) Includes 6.1 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) granted.

(2) Includes 5.9 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) granted.

(3) Excludes the impact of 6.1 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units), which have no exercise price.

(4) Excludes the impact of 5.9 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units), which have no exercise price.

(5) Excludes the impact of 12 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units), which have no exercise price.

(6) Includes 44.3 million shares available for future issuance under Cypress' 2013 Stock Plan and 2.2 million shares available for future issuance under Cypress' Employee Stock Purchase Plan.

(7) Includes 0.2 million shares available for future issuance under the assumed Ramtron Plan and 2.7 million shares available for future issuance under the assumed Spansion Plan.

See *Note 9* of the Notes to the Consolidated Financial Statements under Part II, *Item 8* for further discussion of Cypress' stock plans.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock Buyback Programs:

Approval of a \$450 Million Stock Buyback Program

On October 20, 2015, our Board of Directors (the "Board") approved a new share repurchase plan pursuant to which we are authorized to repurchase our common stock in an aggregate amount not to exceed \$450 million. In connection with the approval of this new share repurchase plan, the share

repurchase plan previously approved in September 2011 was terminated. The share repurchase program does not obligate us to repurchase any specific number of shares and may be suspended or terminated at any time without prior notice and in compliance with legal and regulatory requirements.

The table below sets forth information with respect to repurchases of our common stock made during fiscal 2015 and 2016 under these programs. There were no repurchases of our common stock in fiscal 2017.

	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 Purchase Under the Plans or Programs
	(In thousands, except per-share amounts)			
Authorized fund under 2011 Repurchase program:				
program:	—	\$ —	—	\$400,000
Repurchases in fiscal 2015:				
December 29, 2014 - March 29, 2015 . . .	6	\$ 14.66	6	\$ 83,252
March 30, 2015 - June 28, 2015	818	\$ 12.75	818	\$ 72,672
June 29, 2015 - September 27, 2015	2	\$ 10.62	2	\$ 72,648
Total repurchases in fiscal 2015	826		826	\$ 72,648
Total repurchases under this program	859		1,312	
Authorized fund under 2015 Repurchase program:				
September 28, 2015 - January 3, 2016 . . .	5,658	\$ 9.99	5,658	\$450,000
Total repurchases in fiscal 2015	5,658		5,658	\$393,475
Repurchases in fiscal 2016:				
January 4, 2016 - April 3, 2016	23,822	\$ 7.66	23,822	\$210,968
April 4, 2016 - July 3, 2016	4	\$ 9.74	4	\$210,931
July 4, 2016 - October 2, 2016	2	\$ 11.46	2	\$210,913
October 3, 2016 - January 1, 2017	7	\$ 10.59	7	\$210,844
Total repurchases in fiscal 2016	23,835		23,835	\$210,844
Total repurchases under this program	29,493		29,493	

Yield Enhancement Program (“YEP”):

In fiscal 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 have 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. The shares received upon the maturing of a yield enhancement structure are included in our “shares of common stock held in treasury” on the Consolidated Balance Sheets under Item 8.

We have entered into various yield enhanced structured agreements 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 these type of arrangements. 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 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 counterparties are 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 during fiscal 2015:

<u>Periods</u>	<u>Aggregate Price Paid</u>	<u>Total Cash Proceeds Received Upon Maturity</u> (in thousands)	<u>Yield Realized</u>	<u>Total Number of Shares Received Upon Maturity</u>	<u>Average Price Paid per Share</u>
Fiscal 2015:					
Settled through cash proceeds	\$28,966	\$29,353	\$387	—	\$ —
Settled through issuance of common stock	<u>9,601</u>	<u>—</u>	<u>—</u>	<u>1,000,000</u>	<u>\$9.60</u>
Total for fiscal 2015	<u>\$38,567</u>	<u>\$29,353</u>	<u>\$387</u>	<u>1,000,000</u>	<u>\$9.60</u>

There was no activity in our yield enhanced structured agreements during fiscal 2016 and 2017.

ITEM 6. SELECTED FINANCIAL DATA

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 Part II, Item 7, and the Consolidated Financial Statements and Notes to the Consolidated Financial Statements under Part II, Item 8:

	December 31, 2017	January 1, 2017(2)(4)	January 3, 2016(2)(4)	December 28, 2014(2)	December 29, 2013
	(in thousands, except per-share amounts)				
Consolidated Statement of Operations					
Data:					
Revenues	\$2,327,771	\$1,923,108	\$1,607,853	\$725,497	\$722,693
Cost of revenues	1,370,309	1,235,540	1,204,196	\$361,820	\$384,121
Operating income (loss)	78,093	(608,738)	(323,330)	\$ 22,873	\$(58,195)
Net income (loss)(3)	(80,783)	(683,877)	(367,563)	\$ 16,518	\$(50,087)
Adjust for net loss (income) attributable to noncontrolling interest	\$ (132)	\$ 643	\$ 2,271	\$ 1,418	\$ 1,845
Net income (loss) attributable to Cypress	<u>\$ (80,915)</u>	<u>\$ (683,234)</u>	<u>\$ (365,292)</u>	<u>\$ 17,936</u>	<u>\$(48,242)</u>
Net income (loss) attributable to Cypress per share—basic	\$ (0.24)	\$ (2.14)	\$ (1.21)	\$ 0.11	\$ (0.32)
Net income (loss) attributable to Cypress per share—diluted	\$ (0.24)	\$ (2.14)	\$ (1.21)	\$ 0.11	\$ (0.32)
Dividends per share:					
Declared	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44
Paid	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44	\$ 0.44
Shares used in per-share calculation:					
Basic	333,451	319,522	302,036	159,031	148,558
Diluted	333,451	319,522	302,036	169,122	148,558
	December 31, 2017	January 1, 2017(4)	January 3, 2016(4)	December 28, 2014	December 29, 2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 151,596	\$ 121,144	\$ 227,561	\$118,812	\$104,462
Working capital(3)	\$ 147,854	\$ 191,486	\$ 326,114	\$ 37,479	\$ 13,871
Total assets(3)	3,537,050	\$3,871,871	4,004,261	\$743,281	\$762,884
Debt(1)	\$ 983,816	\$1,225,131	\$ 688,265	\$243,250	\$248,230
Stockholders' equity(3)	\$1,817,592	\$1,892,752	2,716,423	\$201,865	\$175,683

(1) The debt, net of costs, in fiscal year 2017 primarily included \$90 million related to our Senior Secured Revolving Credit facility, \$495.4 million related to our Term Loan B, \$131.4 million related to our 2% 2023 Exchangeable Notes, \$246.6 million related to our 4.5% 2022 Senior Exchangeable Notes, and \$20.4 million related to our 2% 2020 Spansion Exchangeable Notes. The debt, net of costs, in fiscal year 2016 primarily included \$332.0 million related to our Senior Secured Revolving Credit Facility, \$95.0 million related to our Term Loan A, \$444.4 million of Term Loan B, \$287.5 million related to our 4.5% 2022 Senior Exchangeable Notes, and \$150.0 million related to our 2% 2020 Spansion Exchangeable Notes. The debt, net of costs, in fiscal year 2015 primarily included \$449.0 million related to our Senior Secured Revolving Credit Facility, \$97.2 million related to our Term Loan A, \$150 million related to our 2% 2020 Spansion

Exchangeable Notes, \$7.2 million related to our capital leases and \$3.0 million related to our equipment loans. The debt in fiscal year 2014, net of costs, primarily included \$227.0 million related to our Senior Secured Revolving Credit Facility, \$10.3 million related to our capital leases, and \$5.9 million related to our equipment loans. The debt in fiscal year 2013 primarily included \$227.0 million related to our Senior Secured Revolving Credit Facility, \$12.5 million related to our capital leases, and \$8.7 million related to our equipment loans. See *Note 14* for more information on Credit Facility and other debt.

- (2) During the fourth quarter of fiscal 2014, the Company changed from recognizing revenue for sales to certain distributors at the time of shipment, as compared to when resold by the distributor to the end customer, as it determined it could reliably estimate returns and pricing concessions on certain product families and with certain distributors. This change increased fiscal 2014 revenues by \$12.3 million, net income by \$6.2 million and net income per share, basic and diluted, by \$0.04. The change increased 2015 revenue by \$40.9 million and decreased net loss by \$25.0 million and net income per share, basic and diluted, by \$0.08. The change increased 2016 revenue by \$59.2 million and decreased net loss by \$19.5 million and net income per share, basic and diluted, by \$0.06. As at the end of fiscal 2016, 100% of the distribution revenue had been converted to sell-in basis of revenue recognition. See additional disclosures on this change in revenue recognition in *Note 1* of the Notes to Consolidated Financial Statements.
- (3) Our Consolidated Financial Statements include the financial results of legacy Spansion beginning March 12, 2015 and the financial results of the IoT business acquired from Broadcom beginning July 5, 2016. The comparability of our results for the years ended December 31, 2017, January 1, 2017, and January 3, 2016 to the same prior year periods is significantly impacted by these transactions.
- (4) The Consolidated Statement of Operations for the year ended January 1, 2017 and January 3, 2016, and the Consolidated Balance Sheet as of January 1, 2017 and January 3, 2016 have been revised, to reflect immaterial corrections primarily related to stock-based compensation expenses. See *Note 1* to our consolidated financial statements for further discussion.

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 ("MD&A") should be read in conjunction with the financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. The MD&A contains 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" or "the Company") manufactures and sells advanced embedded system solutions for automotive, industrial, home automation and appliances, consumer electronics and medical products. Cypress' microcontrollers, analog ICs, wireless and wired connectivity solutions and memory products help engineers design differentiated products and help with speed to market. Cypress is committed to providing customers with quality support and engineering resources.

Mergers, Acquisitions and Divestitures

Merger with Spansion

On March 12, 2015, we completed the merger (“Merger”) with Spansion Inc. (“Spansion”) pursuant to the Agreement and Plan of Merger and Reorganization, dated as of December 1, 2014 (the “Merger Agreement”), for a total consideration of approximately \$2.8 billion.

Acquisition of Broadcom Corporation’s Internet of Things business (“IoT business”)

On July 5, 2016, we completed the acquisition of certain assets primarily related to the IoT business of Broadcom pursuant to an Asset Purchase Agreement with Broadcom Corporation, dated April 28, 2016, for a total consideration of \$550 million. The following MD&A includes the financial results of the IoT business beginning July 5, 2016. The comparability of our results for the year ended December 31, 2017, January 1, 2017 to the same periods in fiscal 2015 is significantly impacted by the acquisition. To date, we have incurred approximately \$9.2 million of acquisition related costs, including professional fees and other costs associated with the acquisition.

The following MD&A includes the financial results of legacy Spansion beginning March 12, 2015 and the financial results of the IoT business acquired from Broadcom beginning July 5, 2016. The comparability of our results for the year ended December 31, 2017 to the same prior year periods is significantly impacted by these transactions.

In our discussion and analysis of comparative periods, we have quantified the contribution of additional revenue or expense resulting from these transactions wherever such amounts were material and identifiable. While identified amounts may provide indications of general trends, the analysis cannot completely address the effects attributable to integration efforts.

Divestiture of TrueTouch® Business

In connection with the sale of the TrueTouch® Mobile touchscreen business to Parade Technologies (“Parade”) on August 1, 2015, we entered into a Manufacturing Service Agreement (“MSA”) in which we agreed to sell finished wafers and devices to Parade. The terms of the MSA provide that we would sell finished products to Parade at agreed-upon prices that were considered below fair market value, indicating that there was an embedded fair value that would be realized by Parade through those terms. Accordingly, we had allocated approximately \$19.9 million from the \$98.6 million proceeds to the fair value of the MSA based on the forecasted wafer sales to Parade for the subsequent periods. That amount was deferred on our consolidated balance sheet initially and was amortized to revenue as we sold products to Parade. Such amount has been fully amortized in fiscal 2017. During the year ended January 1, 2017 and January 2, 2016, we recognized approximately \$14.2 million and \$5.7 million, respectively, of revenue from the amortization of the deferred revenue.

Investment in Deca Technologies Inc.

On July 29, 2016, Deca Technologies Inc. (“Deca”), our majority owned subsidiary entered into a share purchase agreement (the “Purchase Agreement”), whereby certain third-party investors purchased 41.1% of the shares outstanding at the said date for an aggregate consideration of approximately \$111.4 million. Concurrently, Deca repurchased certain of its preferred shares from us.

After giving effect to the above transactions, our ownership in Deca reduced to 52.2% as at July 29, 2016. As a consequence of the substantive rights afforded to third-party new investors in the purchase agreement, including, among other things, participation on the Board of directors of Deca, approval of operating plans and approval of indebtedness, we determined that we no longer have the power to direct the activities of Deca that most significantly impacts Deca’s economic performance. However, as we continue to have significant influence over Deca’s financial and operating policies,

effective July 29, 2016, the investment in Deca is being accounted for as an equity method investment and financial results of Deca are no longer being consolidated. The carrying value of this equity method investment was determined based on the fair value of the equity in Deca, which the Company calculated to be \$142.5 million. This represents our remaining investment in Deca immediately following the investments by third-party investors. As a result of the change in the method of accounting for our investment in Deca from consolidation to the equity method of accounting, the net carrying value of the assets and liabilities related to Deca, and the adjustments related to the recognition of the initial fair value of the equity method investment resulted in a gain of \$112.8 million which has been reflected as “Gain related to investment in Deca Technologies Inc.” in the Consolidated Statements of Operations.

Sale of CMI

In fiscal 2017, we completed the sale of our wafer fabrication facility in Minnesota for gross proceeds from the sale of \$30.5 million.

Business Developments

Business Segments

We continuously evaluate our reportable business segments in accordance with the applicable accounting guidance. Pursuant to reorganization and internal reporting structure effective fourth quarter, the Company operates under two reportable business segments: MPD and MCD. Prior to the fourth quarter of fiscal 2016, the Company reported under four reportable business segments: MPD, Programmable Systems Division (“PSD”), Data Communications Division (“DCD”) and Emerging Technologies Division (“ETD”).

The prior reportable segments of PSD and DCD have been combined and are referred to as MCD. Deca, previously included in ETD, and now accounted for as an equity method investment, has been reflected in MCD for historical results. The MPD segment comprises a substantial portion of the previous MPD segment, as well as certain portions of the previous PSD. AgigA Tech Inc., a subsidiary previously included in ETD has been combined with MPD.

The prior periods herein reflect this change in segment information.

RESULTS OF OPERATIONS

Revenues

Our total revenues increased by \$404.7 million, or 21.04%, to \$2,327.8 million for the year ended December 31, 2017 compared to the prior year. For the year ended December 31, 2017, the increase was primarily attributable to increase in sales of products in our microcontroller, automotive, IoT Wireless Connectivity and Wired families included in MCD.

Revenue for the year ended December 31, 2017 benefited from the acquisition of the IoT business of Broadcom, as compared to the prior year which included such sales only for a partial period post acquisition.

Revenue for the year ended January 1, 2017 benefited from the Spansion Merger, as compared to the prior year which included such sales only for a partial period post merger, offset by the divestiture of the True Touch® business.

The Company operates on a 52 or 53-week year ending on the Sunday nearest to December 31. Fiscal 2017 and 2016 were each 52 weeks and fiscal 2015 was a 53-week year, with the extra week in the fourth fiscal quarter. The additional week in fiscal 2015 did not materially affect the Company’s results of operations or financial position.

Consistent with our accounting policies and generally accepted accounting principles, prior to fiscal 2014 we recognized a significant portion of revenue through distributors at the time the distributor resold the product to its end customer (also referred to as the sell-through basis of revenue recognition) given the difficulty, at the time in estimating the ultimate price of these product shipments and amount of potential returns. In the fourth quarter of 2014, the Company began recognizing revenue on certain product families and with certain distributors (less its estimate of future price adjustments and returns) upon shipment to the distributors (also referred to as the sell-in basis of revenue recognition).

During the year ended January 1, 2017, we recognized an incremental \$59.2 million of revenue on new product families or distributors for which we recognized revenue on a sell-in basis. This change resulted in a decrease to the net loss of \$19.5 million for the year ended January 1, 2017 or \$0.06 per basic and diluted share. By the end of fiscal 2016, all our revenue from transactions with distributors was recognized on a sell-in basis of revenue recognition.

During the year ended January 3, 2016, we recognized an incremental \$40.9 million of revenue on additional product families for which revenue was previously recognized on a sell-through basis. This change resulted in a decrease to the net loss of \$25.0 million for the year ended January 3, 2016 or \$0.08 per basic and diluted share.

The following table summarizes our consolidated revenues by segments:

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
MCD	\$1,409,265	\$ 994,482	\$ 731,279
MPD	918,506	928,626	876,574
Total revenues	<u>\$2,327,771</u>	<u>\$1,923,108</u>	<u>\$1,607,853</u>

Microcontroller and Connectivity Division:

Revenues recorded by MCD increased in fiscal 2017 by \$414.8 million, or 41.7%, compared to fiscal 2016. We acquired the IoT business acquired from Broadcom on July 5, 2016. Consequently, fiscal 2016 revenue included only a partial period for the results from the IoT business. Additionally MCD revenues increased in fiscal 2017 as compared to fiscal 2016, due to increased revenue from our wired and wireless connectivity and PSoC products.

Revenues from MCD in fiscal 2016 increased by \$263.2 million or 36.0%, compared to fiscal 2015. The increase in fiscal 2016 was primarily driven by the acquisition of the IoT business from Broadcom. Additionally, MCD revenue benefited from increased revenue from the microcontrollers product family.

The overall average selling price of our products for MCD for the year ended December 31, 2017 was \$0.99 which decreased from the prior-year. The decrease is primarily attributed to lower ASPs for wired and wireless IoT products. The overall average selling price of our products for MCD for the year ended January 1, 2017 was \$1.02 which remained unchanged as compared to fiscal 2015.

Memory Products Division:

Revenues recorded by MPD decreased in fiscal 2017 by \$10.1 million, or 1.1% compared to fiscal 2016. The decrease was primarily due to declines in revenue from NAND products offset by strength in revenue from NOR products.

Revenues from MPD increased in fiscal 2016 by \$52.1 million, or 5.9% compared to fiscal 2015. The increase was primarily due to revenue contribution from the Flash memory products which grew

primarily in the automotive and consumer segments. This was partially offset by a decrease in revenue from SRAM products.

The overall average selling prices (ASPs) of our products for MPD for the year ended December 31, 2017 was \$1.39, which increased by \$0.14, compared with the prior year. The increase is primarily attributed to the higher ASPs of certain products in the Flash memory products.

The overall ASPs of our products for MPD for the year ended January 1, 2017 was \$1.25, which decreased by \$0.10, compared to \$1.35 in prior year. The decrease is primarily attributed to lower ASPs in the overall memory segment, particularly in NAND and SRAM products.

Cost of Revenues

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Cost of revenues	\$1,370,309	\$1,235,540	\$1,204,196
As a percentage of revenue	58.9%	64.2%	74.9%

Our cost of revenue ratio improved from 64.2% in fiscal 2016 to 58.9% in fiscal 2017. One of the primary drivers of the improvement in the cost of revenue ratio was lower Spansion acquisition-related expenses which declined \$21.8 million as compared to the prior year. Another major contributor in the improvement in the cost of revenue ratio was higher fab utilization which increased from 56% for the year ended January 1, 2017 to 74% for the year ended December 31, 2017 and a reduction in the cost of certain products. Additionally, our cost of revenue ratio improved due to the sale of products from the acquired IoT business, which have a lower cost of revenue ratio than the company average. This was partially offset by higher write downs of carrying value of inventory during the year ended December 31, 2017 as compared to the prior year. Write-down of inventories during fiscal 2017 was \$34.5 million as compared to \$25.3 million in fiscal 2016. Sale of inventory that was previously written-off or written-down aggregated to \$31.6 million for fiscal 2017 as compared to \$65.7 million in fiscal 2016.

Our cost of revenues ratio improved from 74.9% in fiscal 2015 to 64.2% in fiscal 2016. The primary driver of the improvement in the cost of revenue ratio was lower write downs of carrying value of inventory during fiscal 2016 as compared to the prior year and our on-going focus on gross margin expansion through cost reductions, price increases and synergies recognized from the merger. Included in the cost of revenues for fiscal 2015 was a \$133.0 million write-down of carrying value of inventory assumed as a part of the Spansion Merger as well as a write down of \$19.5 million of certain other inventories. In comparison, write-down of inventories during fiscal 2016 was \$25.3 million. Sale of inventory that was previously written-off or written-down aggregated to \$65.7 million for fiscal 2016 and \$6.4 million for fiscal 2015, which favorably impacted our cost of revenues ratio in fiscal 2016. This impact was partially offset by lower fab utilization which was 56% for fiscal 2016 as compared to 62% in fiscal 2015.

Research and Development (“R&D”)

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
R&D expenses	\$357,016	\$331,175	\$274,813
As a percentage of revenues	15.3%	17.2%	17.1%

R&D expenditures increased by \$25.8 million in fiscal 2017 compared to the same prior-year period. The increase was mainly attributable to \$40.3 million of expenses due to the IoT business acquisition, primarily comprised of \$28.2 million of increase in labor costs due to increased headcount and an increase of \$12.1 million in expensed assets. The above increases were partially offset by a \$1.4 million decrease in stock-based compensation expense and a \$13.1 million decrease in other R&D expenses, mainly due to lower labor cost due to Cypress 3.0 restructuring and project spending.

R&D expenditures increased by \$56.4 million in fiscal 2016 compared to fiscal 2015. The increase was mainly attributable to \$36.8 million of expenses due to the IoT acquisition, primarily comprised of \$22.6 million of increase in labor costs due to additional headcount and increase of \$14.2 million in expensed assets. The remaining increase of \$19.6 million in other R&D expense was primarily due to \$16.3 million of stock-compensation expense.

Selling, General and Administrative (“SG&A”)

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
SG&A expenses	\$303,651	\$317,362	\$320,227
As a percentage of revenues	13.0%	16.5%	19.9%

SG&A expenses decreased by \$13.7 million in fiscal 2017 compared to fiscal 2016. The decrease was mainly due to lower acquisition cost of \$15.4 million related to the IoT acquisition, a \$5.0 million decrease due to executive severance costs incurred in fiscal 2016, and \$10.0 million decrease in non-recurring costs, offset by higher labor costs of \$8.2 million, an increase of \$5.4 million related to IoT operating expenses, and an increase of \$3.1 million in stock-based compensation expenses.

SG&A expenses decreased by \$2.9 million in fiscal 2016 compared to fiscal 2015. The decrease was mainly due to lower acquisition expenses of \$14.1 million primarily related to merger of Spansion, a \$5.7 million decrease in stock-based compensation expenses, offset by acquisition costs associated with the IoT acquisition of \$8.9 million, and IoT operating expenses of \$9.8 million primarily related to labor.

Amortization of Acquisition-Related Intangible Assets

During fiscal 2017, amortization of acquisition-related intangible assets increased by \$ 20.6 million compared to fiscal 2016. The increase was mainly due to the amortization of the intangibles acquired in connection with the IoT business acquisition as well as the amortization related to certain in-process research and development projects, which had reached technological feasibility and were transferred to developed technology, capitalized during 2017.

During fiscal 2016, amortization of acquisition-related intangible assets increased by \$66.4 million compared to fiscal 2015. The increase was mainly due to the amortization of the intangibles acquired in connection with the IoT business acquisition, Spansion Merger as well as certain in-process research and development projects capitalized during 2016.

Costs and settlement charges related to shareholder matter

During fiscal 2017, the Company incurred \$14.3 million of shareholder litigation and proxy related expenses which includes \$3.5 million in reimbursement charges incurred in connection with the cooperation and settlement agreement entered into with T.J. Rodgers.

Impairment of acquisition-related intangible assets

During fiscal 2016, we recognized \$33.9 million of impairment charges related to two IPR&D projects that were canceled due to certain changes in our long-term product portfolio strategy during fiscal 2016.

There were no impairment charges of acquisition-related intangibles during fiscal 2017 and fiscal 2015.

Gain related to investment in Deca Technologies Inc.

On July 29, 2016, Deca Technologies Inc. (“Deca”), our majority owned subsidiary entered into a share purchase agreement (the “Purchase Agreement”), whereby certain third-party investors purchased 41.1% of the shares outstanding at the said date for an aggregate consideration of \$111.4 million. Concurrently, Deca repurchased certain of its preferred shares previously held by Cypress.

After giving effect to the above transactions, our ownership in Deca reduced to 52.2% as at July 29, 2016. As a consequence of the substantive rights afforded to third-party new investors in the purchase agreement, including, among other things, participation on the Board of directors of Deca, approval of operating plans, approval of indebtedness etc., we determined that we no longer have the power to direct the activities of Deca that most significantly impacts Deca’s economic performance. However, as we continue to have significant influence over Deca’s financial and operating policies, effective July 29, 2016, the investment in Deca is being accounted for as an equity method investment and Deca is no longer a consolidated subsidiary. The carrying value of this equity method investment was determined based on the fair value of the equity in Deca, which the Company calculated to be \$142.5 million. This represents our remaining investment in Deca immediately following the investments by third-party investors. As a result of the change in the method of accounting for our investment in Deca from consolidation to the equity method of accounting, the net carrying value of the assets and liabilities related to Deca, and the adjustments related to the recognition of the initial fair value of the equity method investment resulted in a gain of \$112.8 million which has been reflected as “Gain related to investment in Deca Technologies Inc.” in the Consolidated Statements of Operations.

Impairment related to assets held for sale

During fiscal 2016, we committed to a plan to sell our wafer manufacturing facility located in Bloomington, Minnesota, as well as a building in Austin, Texas. The sale of these assets was completed in the first quarter of fiscal 2017. See *Note 6* of the Notes to the Consolidated Financial Statements.

We recorded an impairment charge of \$37.2 million during fiscal 2016, to reflect the estimated fair value, net of cost to sell these assets. During fiscal 2017, we recorded a \$1.2 million adjustment as a result of changes in certain estimates related to these assets, resulting in a reduction of operating expense.

Goodwill impairment charge

During fiscal 2016, we recorded a goodwill impairment charge of \$488.5 million related to our former PSD reporting unit. The goodwill impairment charge resulted from a combination of factors including, (a) decreases in our forecasted operating results when compared with the expectations of the PSD reporting unit at the time of the Spansion Merger, primarily in consumer markets as the Company has subsequently increased its focus on the automotive and industrial end markets, (b) evaluation of business priorities due to recent changes in management at that time, and (c) certain market conditions which necessitated a quantitative impairment analysis for the carrying value of the goodwill related to PSD.

There were no goodwill impairment charges recorded during fiscal 2017 and fiscal 2015.

Restructuring

2017 Restructuring Plan

In December 2017, the Company began implementation of a reduction in workforce (“2017 Plan”) which will result in elimination of approximately 80 positions worldwide across various functions. The restructuring charge of \$6.4 million during the year ended December 31, 2017 consists of personnel costs. The Company expects to incur costs and cash payments under this plan to be completed by the end of fiscal 2018. We will reinvest a substantial portion of the savings generated from the 2017 Restructuring Plan into certain business initiatives and opportunities. Consequently, we do not expect the 2017 Restructuring Plan to result in a material reduction in our operating expenses.

2016 Restructuring Plan

In September 2016, the Company began implementation of a reduction in workforce (“2016 Plan”) resulting in the elimination of approximately 430 positions worldwide across various functions. The restructuring charge of \$2.6 million during the year ended December 31, 2017 consists of personnel costs of \$1.0 million and other charges related to the write-off of certain licenses and facilities related expenses of \$1.6 million. The personnel costs related to the 2016 Plan during the year ended January 1, 2017 were \$26.3 million. The Company expects that the costs incurred under the 2016 Plan will be paid out in cash through first quarter of fiscal 2018.

We have reinvested a substantial portion of the savings generated from the 2016 Restructuring Plan into certain business initiatives and opportunities. Consequently, the 2016 Restructuring Plan did not result in a material reduction in our operating expenses.

Spancion Integration-Related Restructuring Plan

In March 2015, we began the implementation of planned cost reduction and restructuring activities in connection with the Merger. During fiscal 2015, restructuring charge of \$90.1 million primarily consists of severance costs, lease termination costs and impairment of property, plant and equipment. The lease termination costs include approximately \$18.0 million relating to the buildings Spancion had leased prior to the Merger, which we decided not to occupy in the post-Merger period. The initial term of the lease commenced on January 1, 2015 and will expire on December 31, 2026. During fiscal 2016, a release of previously estimated personnel related liability of \$0.1 million was recorded.

We anticipate that the remaining restructuring liability balance will be paid out over the remaining lease term through 2026 for the excess lease obligation.

Gain on Divestiture of TrueTouch® Mobile Business

In connection with the sale of the TrueTouch® mobile touchscreen business to Parade for total cash proceeds of \$98.6 million, we sold certain assets associated with the disposed business mostly consisting of inventory with a net book value of \$10.5 million and recognized a gain of \$66.5 million in fiscal 2015, net of the amount of gain deferred in connection with an ongoing manufacturing service agreement we entered into with Parade in connection with the divestiture.

Interest expense

Interest expense for fiscal 2017 was \$80.2 million and primarily represents interest payments due and amortization of debt discount and costs related to 2% 2023 Exchangeable Notes, 4.5% 2022 Senior Exchangeable Notes, 2% 2020 Spancion Exchangeable Notes, interest expense incurred on our Senior Secured Revolving Credit Facility, Term Loan B and other debt. In addition, of the \$80.2 million,

\$7.2 million was related to the debt extinguishment for 2% 2020 Spansion Exchangeable Notes and Term Loan A.

Interest expense for fiscal 2016 was \$55.2 million and represents interest payments due and amortization of debt discount and costs related to 4.50% Senior Exchangeable Notes, 2% Senior Exchangeable Notes, interest expense incurred on our revolving line of credit, Term Loan A, Term Loan B and other debt.

Interest expense for fiscal 2015 was 16.4 million and represents interest payments due and amortization of debt discount and costs related to 2% Senior Exchangeable Notes, interest expense incurred on our revolving line of credit, Term Loan A and other debt.

Refer to *Note 14* of Notes to the Consolidated Financial Statements under *Item 8* for more information about our credit facilities and other debt.

Other Income (expense), Net

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

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Interest income	\$ 568	\$ 1,836	\$ 885
Changes in fair value of investments under the deferred compensation plan	6,087	2,326	(1,354)
Unrealized (loss) gain on marketable securities	—	325	(4,655)
Foreign currency exchange (losses) gains, net	(1,838)	(4,251)	744
(Loss) gain on sale of investments	—	(265)	276
Other	(549)	342	335
Other income (expense), net	<u>\$ 4,268</u>	<u>\$ 313</u>	<u>\$(3,769)</u>

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-deferred 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 as our liabilities and the underlying assets are subject to claims of general creditors. In fiscal 2017, 2016 and 2015, we recognized changes in fair value of the assets under the deferred compensation plan in “Other income (expense), net” of \$ 6.1 million, \$2.3 million, and \$(1.4) million, respectively. The increase or decrease in the fair value of the investments relates to the increased or decreased performance of the portfolio on a year over year basis. Refer to *Note 18* of the Notes to the Consolidated Financial Statements under *Item 8* for more information about our deferred compensation plan.

Unrealized (realized) loss on marketable securities

In the fourth quarter of fiscal 2014, the Company, through a wholly-owned subsidiary, purchased 6.9 million ordinary shares of Hua Hong Semiconductor Limited (HHSL) for an aggregate price of \$10.0 million in connection with their initial public offering. HHSL is the parent company of Grace Semiconductor Manufacturing Corporation, which is one of our strategic foundry partners. We recorded an unrealized loss on our investment in HHSL’s ordinary shares of \$4.7 million in fiscal 2015 as a result of the decline in the fair market value of the investment. During 2016 the Company

disposed the shares of HHSL and the realized gain was immaterial to the consolidated financial statements.

Share in Net Loss and Impairment of Equity Method Investees

We have been making investments in Enovix Corporation (“Enovix”), a privately held development stage company. We invested \$5.6 million, \$23.0 million and \$28.0 million in Enovix during 2017, 2016 and 2015 respectively. Our investment holding comprised of 41.2%, 46.6% and 38.7% of Enovix’s equity at the end of fiscal 2017, 2016 and 2015, respectively. Since the fourth quarter of 2014 we have been accounting for our investment in Enovix using the equity method of accounting. During the fourth quarter of 2017, Enovix missed achieving certain key planned product development milestones. We considered various factors in determining whether to recognize an impairment charge, including the expectations of the investee’s future cash flows and capital needs, the length of time the investee has been in a loss position, the ability to achieve milestones, and the near-term prospect of the investee and its exit strategy. Enovix’s estimated enterprise value is sensitive to its ability to achieve these milestones. Consequently, we believe our investment in Enovix has suffered an other-than-temporary impairment and we recorded a charge of \$51.2 million.

In the second quarter of fiscal 2016, we changed the basis of accounting for our investment in Deca Technologies Inc. (“Deca”) to the equity method of accounting. As at the end of fiscal year 2017 and 2016, our investment comprised 52.5% of Deca’s equity.

During fiscal 2017, 2016 and 2015, we recorded \$8.7 million, \$9.9 million and \$7.1 million respectively for our share of losses recorded by Enovix. During fiscal 2017 and 2016, we recorded \$11.8 million and \$8.2 million respectively for our share of losses recorded by Deca.

Income Taxes

Our income tax expense was \$ 11.2 million and \$2.6 million in fiscal 2017 and 2016, respectively. Our income tax expense was \$16.9 million in fiscal 2015. The income tax expense for fiscal 2017 was primarily attributable to non-U.S. taxes on income earned in foreign jurisdictions, and increase in tax reserves, primarily offset by tax benefits resulting from the recently passed tax legislation, the Tax Cuts and Jobs Act of 2017 (the “Act”). Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21%, the repeal of corporate alternative minimum taxes (AMT), the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. Based on the Act and guidance available as of the date of this filing, the Company determined a provisional estimate of the impact of the one-time transition tax on the mandatory deemed repatriation of accumulative foreign subsidiary earnings. The Company estimates that the transition tax will result in the utilization of \$46.0 million of net operating loss carryforwards against which the Company maintains a corresponding valuation allowance. As a result of the reduction in the corporate income tax rate, the Company revalued its net deferred tax asset at December 31, 2017. The provisional amount related to the remeasurement of certain deferred tax liabilities, based on the rates at which they are expected to reverse in the future, was a tax benefit of \$3.0 million. The provisional amount related to the repeal of corporate AMT was a tax benefit of \$5.6 million as the prior year AMT credit will be refunded over 2018 - 2021. The income tax expense for fiscal 2016 was primarily attributable to income taxes associated with our non-U.S. operations, primarily offset by release of previously accrued taxes related to the lapsing of statutes of limitation.

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.

Income tax examinations of our Malaysian subsidiary for the fiscal years 2007 to 2012 and our Philippine subsidiary for fiscal year 2014 are in progress. We do not believe the ultimate outcome of these examinations will result in a material increase to our tax liability.

International revenues account for a significant portion of our total revenues, such that a material portion of our pretax income is earned and taxed outside the U.S. at rates ranging from 0% to 25%. The impact on our provision for income taxes of foreign income being taxed at rates different than the U.S. federal statutory rate was an expense of approximately \$67.7 million, an expense of \$36.6 million, and expense of \$22.4 million in 2017, 2016 and 2015, respectively. The foreign jurisdictions with lower tax rates as compared to the U.S. statutory federal rate that had the most significant impact on our provision for foreign income taxes in the periods presented include Malaysia, Philippines and Thailand.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. On February 19, 2016, the Internal Revenue Service appealed the decision. A final decision has yet to be issued. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. Due to the uncertainty surrounding the status of the current regulations, questions related to the scope of potential impact, and the risk of the Tax Court's decision being overturned upon appeal, we have not recorded any impact related to this issue as of December 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes our consolidated cash, cash equivalents and short-term investments and working capital:

	As of		
	<u>December 31, 2017</u>	<u>January 1, 2017</u>	<u>January 3, 2016</u>
	(In thousands)		
Cash, cash equivalents and short-term investments	\$151,596	\$121,144	\$227,561
Working capital, net	\$147,854	\$191,486	\$326,114

Key Components of Cash Flows

	Year Ended		
	<u>December 31, 2017</u>	<u>January 1, 2017</u>	<u>January 3, 2016</u>
	(in thousands)		
Net cash provided by operating activities	\$ 403,487	\$ 217,419	\$ 8,801
Net cash used in investing activities	\$ (14,429)	\$(613,439)	\$(79,087)
Net cash provided by (used in) financing activities	\$(357,634)	\$ 289,502	\$193,240

Fiscal 2017:

Operating Activities

Net cash provided by operating activities during fiscal 2017 was \$403.5 million. The net loss of \$80.8 million included net non-cash items of \$463.2 million. Net cash provided by operating activities

benefited from a \$21.1 million decrease in net operating assets and liabilities. The non-cash items primarily consisted of:

- depreciation and amortization of \$264.9 million,
- stock based compensation expense of \$91.6 million,
- share in net loss and impairment of equity method investees of \$71.8 million,
- accretion of interest expense on 2% 2023 Exchangeable Notes, 4.5% 2022 Senior Exchangeable Notes, and 2% 2020 Spansion Exchangeable Notes and amortization of debt and financing costs on other debt of \$21.1 million, and
- restructuring costs and other of \$9.0 million,

The increase in net cash due to changes in operating assets and liabilities during fiscal 2017 of \$21.1 million was primarily due to the following:

- a decrease in accounts payable and accrued and other liabilities of \$59.0 million mainly due to timing of payments and payments related to restructuring activities;
- an increase in price adjustments and other distributor related reserved of \$19.1 million;
- an increase in inventories of \$14.3 million to support increased expected demand for IoT and other MCD products;
- an increase in other current and long-term assets of \$9.6 million , primarily due to timing of payments for certain licenses; and
- an increase in accounts receivables of \$37.0 million mainly due to an increase in revenue.

Investing Activities

In fiscal 2017, we used approximately \$14.4 million of cash in our investing activities primarily due to:

- \$35.5 million of cash received on the sale of the wafer manufacturing facility located in Bloomington, Minnesota and a building in Austin, Texas,
- receipt of \$10.0 million of previously escrowed consideration from the divestiture of our TrueTouch® mobile touchscreen business,
- \$2.3 million of cash received on the sales of property and equipment
- the above increases were offset by \$54.3 million of cash used for property and equipment expenditures relating to purchases of certain tooling, laboratory and manufacturing facility equipment and \$9.3 million related to our equity method and cost method investments.

Financing Activities

In fiscal 2017, we used approximately \$357.6 million of cash in our financing activities, primarily related to:

- \$144.7 million dividend payments,
- net repayments of \$242.0 million on the Senior Secured Revolving Credit Facility,
- \$128.0 million repayment of 2% 2020 Spansion Exchangeable Notes, and
- \$118.7 million repayment of Term Loan A and Term Loan B.
- the above payments were offset by \$91.3 million of borrowings under Term Loan B and \$150.0 million of borrowing under 2% 2023 Exchangeable Notes.

Fiscal 2016:

Operating Activities

Net cash provided by operating activities of \$217.4 million during fiscal 2016 was primarily due to a net loss of \$683.9 million offset by net non-cash items of \$877.3 million and a \$24.0 million increase in cash due to changes in operating assets and liabilities. The non-cash items primarily consisted of:

- depreciation and amortization of \$265.9 million,
- stock based compensation expense of \$98.5 million,
- restructuring costs and other of \$27.2 million
- accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt of \$13.1 million,
- Share in net loss of equity method investees of \$17.6 million,
- goodwill impairment charge of \$488.5 million,
- gain related to investment in Deca Technologies Inc. of \$112.8 million,
- impairment charge related to assets held for sale of \$37.2 million, and
- impairment charge for acquisition-related IPR&D of \$33.9 million.

The increase in net cash due to changes in operating assets and liabilities during fiscal 2016 of \$24.0 million, was primarily due to the following:

- an increase in accounts receivable of \$41.0 million due to an increase in sales during fiscal 2016. The days sales outstanding for fiscal 2016 and fiscal 2015 were 61 days;
- an increase in inventories of \$33.7 million primarily as a result of the IoT acquisition;
- an increase in other current and long-term assets of \$12.2 million, primarily due to timing of payments for certain licenses;
- an increase in accounts payable, accrued and other liabilities of \$79.5 million due to timing of payments; and
- a decrease in deferred income of \$69.0 million due to the transition of additional product families to the sell-in basis of revenue recognition. The decrease in deferred income was offset by an increase in price adjustment reserve for sale to distributors of \$100.4 million due to the change in revenue recognition for certain product families in fiscal 2016 on a sell-in basis, which required us to record a reserve for distributor price adjustments based on our estimate of historical experience rates.

Investing Activities

In fiscal 2016, we used approximately \$613.4 million of cash in our investing activities primarily due to:

- \$550.0 million for the acquisition of the IoT business,
- \$57.4 million of cash used for property and equipment expenditures relating to purchases of certain tooling, laboratory and manufacturing facility equipment and
- \$27.1 million cash paid for certain investments, which included \$23.0 million towards our investment in Enovix.
- such uses of cash were offset by sale and maturities of investments of \$85.9 million.

Financing Activities

In fiscal 2016, we generated approximately \$289.5 million of cash from financing activities, primarily from

- our borrowings on the 4.50% Senior Exchangeable Notes of \$287.5 million,
- \$450.0 million borrowing on our Term Loan B and
- proceeds of \$43.9 million from employee equity awards.

The above borrowings were offset by

- the repurchase of stock in the amount of \$175.7 million,
- net repayments of \$312.0 million on the Senior secured revolving credit facility,
- \$141.4 million dividend payments,
- purchase of capped call for the 4.50% Senior Exchangeable Notes of \$8.2 million and
- repayments of capital leases and Term Loan A of \$10.6 million.

Liquidity and Contractual Obligations

Summary of our debt balances is included below:

	December 31, 2017		
	Principal amount outstanding	Less: Unamortized discount and issuance costs	Net carrying value outstanding
	(in thousand)		
Senior Secured Revolving Credit Facility	\$ 90,000	\$ —	\$ 90,000
Term Loan B	511,924	16,541	495,383
2% 2020 Spansion Exchangeable Notes	21,990	1,615	20,375
4.5% 2022 Senior Exchangeable Notes	287,500	40,864	246,636
2% 2023 Exchangeable Notes	150,000	18,578	131,422
Total Debt	<u>\$1,061,414</u>	<u>\$77,598</u>	<u>\$983,816</u>

Of the total principal amount outstanding, \$27.3 million related to the total Term Loan B is classified as current liabilities as of December 31, 2017.

	January 1, 2017		
	Principal amount outstanding	Less: Unamortized discount and issuance costs	Net carrying value outstanding
	(in thousand)		
Senior Secured Revolving Credit Facility	\$ 332,000	\$ —	\$ 332,000
Term Loan B	444,375	15,661	428,714
Term Loan A	95,000	2,662	92,338
Capital lease obligations	40	—	40
Equipment loans	112	—	112
2% 2020 Spansion Exchangeable Notes	149,990	14,589	135,401
4.5% 2022 Senior Exchangeable Notes	287,500	50,974	236,526
Total Debt	<u>\$1,309,017</u>	<u>\$83,886</u>	<u>\$1,225,131</u>

Of the total principal amount outstanding, \$22.5 million related to Term Loan B, \$7.5 million related to Term Loan A, \$0.1 million related to Equipment loans, and \$40 thousand related to Capital lease obligation, were classified as current liabilities as of January 1, 2017.

The Senior Secured Revolving Credit Facility, as amended, provides for a \$540 million Senior Secured Revolving Credit Facility of which \$450 million was undrawn as at December 31, 2017.

We believe that the liquidity provided by existing cash, cash equivalents and available-for-sale investments and our borrowing arrangements will provide sufficient capital to meet our requirements for at least the next twelve months. However, should economic conditions and/or financial, business and other factors beyond our control adversely affect the 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. In addition, 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. As of December 31, 2017, we were in compliance with all of the financial covenants under the Senior Secured Revolving Credit Facility.

Refer to *Note 14* of the Notes to the Consolidated Financial Statements under Item 8 for more information on our debt obligations.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2017:

	<u>Total</u>	<u>2018</u>	<u>2019 and 2020</u>	<u>2021 and 2022</u>	<u>After 2022</u>
	(In thousands)				
Purchase obligations (1)	\$ 455,075	\$200,421	\$247,957	\$ 6,697	\$ —
Operating lease commitments (2)	66,392	15,258	21,764	12,306	17,064
2% 2023 Exchangeable Notes	150,000	—	—	—	150,000
4.5% 2022 Senior Exchangeable Notes	287,500	—	—	287,500	—
2% 2020 Spansion Exchangeable Notes	21,990	—	21,990	—	—
Term Loan B	511,924	27,303	71,669	412,952	—
Interest payment on debt	146,450	39,436	78,639	28,120	255
Senior Secured Revolving Credit Facility	90,000	—	90,000	—	—
Asset retirement obligations	<u>\$ 5,693</u>	<u>\$ 223</u>	<u>\$ 3,274</u>	<u>\$ 1,857</u>	<u>\$ 339</u>
Total contractual obligations	<u>\$1,735,024</u>	<u>\$282,641</u>	<u>\$535,293</u>	<u>\$749,432</u>	<u>\$167,658</u>

- (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, that have remaining terms in excess of one year.
- (2) Operating leases includes payments relating to Spansion's lease for office space in San Jose entered on May 22, 2014, which is no longer required. The lease is for a period of 12 years, with two options to extend for periods of five years each after the initial lease term. The term of the lease commenced on January 1, 2015 and expires on December 31, 2026. We do not plan to exercise the option to extend the lease beyond 2026.

As of December 31, 2017, our unrecognized tax benefits were \$28.9 million, which were classified as long-term liabilities. We believe it is possible that we may recognize approximately \$0.2 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. As of December 31, 2017, we had long-term pension and other employee related liabilities of \$16.8 million, which were classified as long-term liabilities.

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, repayment of debt, the purchase of our stock through our stock buyback program and payments of regularly scheduled cash dividends. In addition we may use excess cash to invest in strategic investments and partnerships and pursue acquisitions. Our investment policy defines three main objectives when buying investments: security of principal, liquidity, and maximization of after-tax yield. We invest excess cash in various financial securities subject to certain requirements including security type, duration, concentration limits, and credit rating profile.

As of December 31, 2017, a total cash and short-term investment position of \$151.6 million is available for use in current operations.

As of December 31, 2017, approximately 20% of our cash and cash equivalents and available-for-sale investments are held outside of the United States. 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.

On February 17, 2017, we amended our Credit Facility which includes the Senior Secured Revolving Credit Facility and the Term Loans. The amendment reduced the applicable margins on the Term Loan B and Term Loan A from 5.50% and 5.11%, respectively, to 3.75% effective February 17, 2017. Additionally, the amended financial covenants include the following conditions: 1) maximum total leverage ratio of 4.25 to 1.00 through December 31, 2017 and 2) maximum total leverage ratio of 4.00 to 1.00 through July 1, 2018 and 3.75 to 1.00 thereafter. We incurred financing costs of \$5.9 million to lenders of the Term Loans which were capitalized and recognized as a reduction of the Term Loan A and Term Loan B balances in “Credit Facility and long-term debt” on the Consolidated Balance Sheets. These costs will be amortized over the life of the Term Loans and are recorded in “Interest Expense” on the Consolidated Statements of Operations.

On April 7, 2017, we further amended our Credit Facility. The amendment reduced the applicable margins on our Term Loan A from 3.75% to 2.75% effective April 7, 2017. We incurred financing costs of \$0.4 million to lenders of Term Loan A which were recognized as a reduction of the Term Loan A balance in “Long-term credit facility and long-term debt” on the Consolidated Balance Sheet.

On August 18, 2017, we amended our Credit Facility. As a result of the amendment, Term Loan A borrowing of \$91.3 million was extinguished as a separate borrowing. Term Loan B was increased by \$91.3 million to replace Term Loan A (the “Additional Incremental Term Loan”). Previously unamortized debt issuance costs of \$3.0 million related to Term Loan A were written off and recorded as “Interest expense” in the Consolidated Statements of Operations during fiscal 2017. The additional incremental term loan is subject to the terms of the Credit Agreement and the additional terms set forth in the amendment. The amendment also reduced the applicable margins on Term Loan B from 3.75% to 2.75% effective August 18, 2017. We incurred financing costs of \$0.6 million to the lenders of the Term Loans which have been capitalized and recognized as a reduction of the Term Loan B balances in “Credit facility and long-term debt” on the Consolidated Balance Sheet. These costs will be

amortized over the life of the Term Loans and are recorded in “Interest Expense” on the Consolidated Statements of Operations.

On November 6, 2017, the Company entered into an indenture (the “Indenture”), by and between the Company and U.S. Bank National Association, as trustee (the “Trustee”), pursuant to which the Company issued a total of \$150.0 million aggregate principal amount of Notes. The Notes bear interest at a rate of 2.00% per year, payable in cash on February 1 and August 1 of each year, commencing on February 1, 2018. The Notes will mature on February 1, 2023, unless earlier repurchased or converted.

In December 2017, we entered into fixed-for-floating interest rate forward swap agreements (expiring July 2021) with two counterparties starting from April 2018, to swap variable interest payments on our debt for fixed interest payments. The aggregate notional amount of these interest rate swaps was \$300 million.

On November 17, 2017, the Company entered into a privately negotiated agreement to induce the extinguishment of a portion of the Spansion Notes. The Company paid the holders of the Spansion Notes cash in the aggregate principal of \$128 million and delivered 17.3 million shares of common stock for the conversion spread. The Company recorded \$4.3 million in loss on extinguishment, which included \$1.2 million paid in cash as an inducement premium and a reduction in additional paid-in capital of \$290.6 million towards the deemed repurchase of the equity component of the notes. As of December 31, 2017, the remaining principal amount was \$22.0 million. The Notes will mature on September 1, 2020 unless earlier repurchased or converted.

We believe that liquidity provided by existing cash, cash equivalents and investments, our cash from operations and our borrowing arrangements will provide sufficient capital to meet our requirements for at least the next twelve months. However, if economic conditions deteriorate, debt covenants unexpectedly impact our business, 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 also 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, repurchase shares of our stock, increase our dividends or pay a special dividend and provide us with additional flexibility to take advantage of other business opportunities that arise.

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 the Notes to the 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, 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, stock rotation and other allowances under certain circumstances. The Company typically recognizes revenue from sales of its products to distributors upon shipment. An allowance for estimated distributor credits covering price adjustments is recorded based on historical experience rates as well as economic conditions and contractual terms. Any effects of change in estimates related to distributor price adjustments are recorded as an adjustment to revenue.

Prior to 2014, we had recognized a significant portion of revenue through distributors at the time the distributor resold the product to its end customer (also referred to as the sell-through basis of revenue recognition) given the difficulty, at the time, in estimating the ultimate price of these product shipments and amount of potential returns. We continuously reassess our ability to reliably estimate the ultimate price of these products and, over the past several years, have made investments in our systems and processes around its distribution channel to improve the quality of the information it receives from its distributors. Given these ongoing investments, and based on the financial framework we use for estimating potential price adjustments, in the fourth quarter of 2014 we began recognizing revenue on certain product families and with certain distributors (less its estimate of future price adjustments and returns) upon shipment to the distributors (also referred to as the sell-in basis of revenue recognition).

During fiscal 2015, we recognized \$40.9 million of incremental revenue from this change, which resulted in a decrease in net loss of \$25.0 million or \$0.08 per basic and diluted shares.

During fiscal 2016, we recognized approximately \$59.2 million of incremental revenue from this change in revenue recognition, which resulted in a reduction of our net loss of \$19.5 million for fiscal 2016, or \$0.06 per basic and diluted share. By the end of fiscal 2016, the Company had transitioned all revenue from distributions from sell-through to the sell-in basis of revenue recognition.

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 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.

Business Combinations:

We apply the provisions of Accounting Standards Codification 805, Business Combinations (“ASC 805”), in the accounting for acquisitions. It requires us to recognize separately from goodwill the

assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our Consolidated Statements of Operations. Accounting for business combinations requires the Company's management to make significant estimates and assumptions, especially at the acquisition date including our estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies and contingent consideration, where applicable. Although we believe the assumptions and estimates it has made have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to: future expected cash flows from product sales, customer contracts and acquired technologies, expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

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. 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.

Valuation of Goodwill:

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. We assess our goodwill for impairment on an annual basis. Additionally, if certain events or circumstances indicate that an impairment loss may have been incurred, we will also perform an impairment assessment on an interim basis. In accordance with ASU 2011-08, Testing Goodwill for Impairment, qualitative factors can be assessed to determine whether it is necessary to perform the current two-step test for goodwill impairment. If we believe, as a result of our qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

Cash Flow Hedges:

We recognize derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measure them at fair value. Gains and losses resulting from changes in fair value are accounted for depending on the use of the derivative and whether it is designated and qualifies for hedge accounting. To receive hedge accounting treatment, all hedging relationships are formally documented at the inception of the hedge, and the hedges must be highly effective in offsetting changes to future cash flows on hedged transactions. We record changes in the intrinsic value of these cash flow hedges in accumulated other comprehensive loss on the Consolidated Balance Sheets, until the forecasted transaction occurs. When the forecasted transaction occurs, we reclassify the related gain or loss on the cash flow hedge to the appropriate revenue or expense line of the Consolidated Statements of Operations. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, we will reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive loss to other income (expense), net in our Consolidated Statements of Operations at that time.

The Company enters into cash flow hedges to protect non-functional currency revenues, inventory purchases and certain other operational expenses against variability in cash flows due to foreign currency fluctuations. The Company's foreign currency forward contracts that were designated as cash flow hedges have maturities between three and twelve months. The Company evaluates hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and records any ineffective portion of the hedge in other income (expense), net in its Consolidated Statements of Operations.

The Company enters into interest rate swaps to manage the variability in cash flow due to interest rate fluctuations. The Company evaluates hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and records any ineffective portion of the hedge in other income (expense), net in its Consolidated Statements of Operations. Changes in the fair value of interest rate swaps that have been designated as hedging instruments will be recognized in accumulated other comprehensive income.

Refer *Note 11* of the Notes to the Consolidated Financial Statements under Item 8 for further details on cash flow and balance sheet hedges.

Share-Based Compensation:

Under the fair value recognition provisions of the guidance, the Company recognizes share-based compensation based on the grant date fair value of the award and is recognized over the service period, which is usually the vesting period. Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of highly subjective assumptions, including measurement of the level of achievement of performance milestones, 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. Through fiscal 2016, we estimated the expected forfeiture rate and only recognized the expense for those shares expected to vest. Beginning fiscal 2017, with the adoption of ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," the Company elected to recognize forfeitures as they occurred and adopted these changes using a modified retrospective approach, with a cumulative adjustment recorded to opening accumulative deficit. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future.

Employee Benefit Plans:

In connection with the Merger, we assumed the Spansion Innovates Group Cash Balance Plan (a defined benefit pension plan) in Japan. A defined benefit pension plan is accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the Japanese corporate bonds yield curve as of the end of the most recently completed fiscal year. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long-term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if actual results differ from actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO, being the corridor amount. If the amount of a net gain or loss does not exceed the corridor amount, it will be recorded to other comprehensive income (loss). See *Note 18* of the Notes to the Consolidated Financial Statements for further details of the pension plans.

Accounting for Income Taxes:

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the repeal of corporate AMT for tax years, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings. We have computed our provision for income taxes in accordance with the Act and guidance available as of the date of this filing and as a result have recorded a tax benefit of \$8.6 million in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the remeasurement of certain deferred tax liabilities, based on the rates at which they are expected to reverse in the future, was a tax benefit of \$3.0 million. The provisional amount related to the repeal of corporate AMT was a tax benefit of \$5.6 million as the prior year AMT credit will be refunded over 2018 - 2021. Based on the Act and guidance available as of the date of this filing, the Company determined a provisional estimate of the impact of the one-time transition tax on the mandatory deemed repatriation of accumulative foreign subsidiary earnings. The Company estimates that the transition tax will result in the utilization of \$46.0 million of net operating loss carryforwards against which the Company maintains a corresponding valuation allowance. As a result of the reduction in the corporate income tax rate, the Company revalued its net deferred tax asset at December 31, 2017, which resulted in a decrease of the net deferred tax balance and corresponding valuation allowance balance of \$158.7 million.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, we have determined that there is no additional current tax expense required to be recorded in connection with the transition tax on the mandatory deemed repatriation of cumulative foreign earnings and a reasonable estimate at December 31, 2017 as we believe we have sufficient tax attributes such as NOL and tax credits to offset any tax imposed on this income. Additional work is necessary for a more detailed analysis of our historical foreign earnings as well as potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense upon completion of the analysis during the subsequent quarters of 2018.

Recent Accounting Pronouncements

See “Recent Accounting Pronouncements” in *Note 1* of the Notes to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

Our investment portfolio consists of a variety of financial instruments that expose us to interest rate risk, including, but not limited to, money market funds, certificate of deposit 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 (loss) in stockholders’ equity. Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate increase in interest rates would have a material effect on the fair value of our portfolio.

Our debt obligations consist of a variety of financial instruments that expose us to interest rate risk, including, but not limited to the Senior Secured Revolving Credit Facility (expiring March 2020) and the Term Loan (expiring July 2021). Interest on our Senior Secured Revolving Credit Facility and Term Loan is at a variable rate. The interest rate on each of these instruments is tied to short term interest rate benchmarks including the Prime Rate and LIBOR.

In December 2017, we entered into fixed-for-floating interest rate forward swap agreements (expiring July 2021) with two counterparties starting from April 2018, to swap variable interest payments on our debt for fixed interest payments; these agreements will expire on July 2021. The objective of the swap was to effectively fix the interest rate at current levels without having to refinance the outstanding term loan, thereby avoiding the incurrence of transaction costs. The interest rate on the variable debt will continue to float until it becomes fixed in April 2018. As of December 31, 2017, these swaps were not designated as hedging instruments. As of December 31, 2017, the aggregate notional amount of these interest rate swaps was \$300 million. The gross asset and liability at fair value as well as the net impact to the Consolidated Statements of Operations was immaterial. Subsequent to year-end, on January 3, 2018, we have evaluated the hedge effectiveness of the interest rate swaps and have designated these swaps as hedging instruments. Upon designation as hedge instruments, future changes in fair value of these swaps will be recognized in accumulated other comprehensive loss.

A one hundred basis point change in the contractual interest rates would change our interest expense for the Senior Secured Revolving Credit Facility and Term Loan by approximately \$3.0 million annually.

Our long-term operating results and cash flows may be materially affected to a significant degree by a sudden change in market interest rates.

Foreign Currency Exchange Risk

We operate and sell products in various global markets generating revenue primarily in USD and Yen and incur costs denominated in many currencies including USD, Yen, Euro, Renminbi, Thai Baht, Philippine Peso, Indian Rupee, Malaysian Ringgit and several other non-material currencies but predominantly the U.S. dollar. We are exposed to certain risks associated with changes in foreign currency exchange rates in all these non-U.S. locations.

Example of our foreign currency transactions including:

- sales of our products to Japanese distributors are denominated in U.S. dollars, Japanese yen and Euros;
- some of our manufacturing costs are denominated in Japanese yen, and other foreign currencies such as the Thai Baht, Philippine Peso and Malaysian Ringgit; and
- some fixed asset purchases and sales are denominated in other foreign currencies.

Consequently, movements in exchange rates could cause our revenues and our expenses to fluctuate, affecting our profitability and cash flows. We use foreign currency forward contracts to reduce our foreign exchange exposure on our foreign currency denominated assets and liabilities. We hedge a percentage of our forecasted revenue and expenses denominated in Japanese yen with foreign currency forward contracts. The objective of these contracts is to mitigate impact of foreign currency exchange rate movements to our operating results on a short-term basis. We do not use these contracts for speculative or trading purposes.

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. Please see *Note 11* of the Notes to the Consolidated Financial Statements under *Item 8* for details on the contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Consolidated Balance Sheets	64
Consolidated Statements of Operations	65
Consolidated Statements of Comprehensive Income (Loss)	66
Consolidated Statements of Stockholders' Equity	67
Consolidated Statements of Cash Flows	68
Notes to Consolidated Financial Statements	69
Report of Independent Registered Public Accounting Firm	136
Supplemental Financial Data—Quarterly Data (Unaudited)	138
Schedule II—Valuation and Qualifying Accounts	146

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2017</u>	<u>January 1,</u> <u>2017</u>
	<u>(In thousands, except per-share amounts)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 151,596	\$ 120,172
Accounts receivable, net	295,991	333,037
Inventories	272,127	287,776
Assets held for sale	—	30,796
Other current assets	103,637	122,162
Total current assets	<u>823,351</u>	<u>893,943</u>
Property, plant and equipment, net	289,554	297,266
Goodwill	1,439,472	1,439,472
Intangible assets, net	715,120	904,561
Equity method investments	122,514	188,687
Other long-term assets	147,039	147,942
Total assets	<u><u>3,537,050</u></u>	<u><u>3,871,871</u></u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	213,101	241,424
Accrued compensation and employee benefits	79,275	60,552
Price adjustments and other distributor related reserves	173,592	154,525
Dividends payable	38,741	35,506
Current portion of long-term debt	27,303	30,152
Other current liabilities	143,485	180,298
Total current liabilities	<u>675,497</u>	<u>702,457</u>
Deferred income taxes and other tax liabilities	52,006	44,934
Credit facility and long-term debt	956,513	1,194,979
Other long-term liabilities	35,442	36,749
Total liabilities	<u><u>1,719,458</u></u>	<u><u>1,979,119</u></u>
Commitments and contingencies (Note 20)	—	—
Stockholder's 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; 525,719 and 497,055 shares issued; 352,220 and 323,583 shares outstanding at December 31, 2017 and January 1, 2017, respectively	4,936	4,737
Additional paid-in-capital	5,659,612	5,659,644
Accumulated other comprehensive loss	(1,362)	(8,811)
Accumulated deficit	<u>(1,511,706)</u>	<u>(1,428,441)</u>
Stockholders' equity before treasury stock	4,151,480	4,227,129
Less: shares of common stock held in treasury, at cost; 173,498 and 173,472 shares at December 31, 2017 and January 1, 2017, respectively	<u>(2,334,944)</u>	<u>(2,335,301)</u>
Total Cypress stockholders' equity	1,816,536	1,891,828
Non-controlling interest	1,056	924
Total equity	<u>1,817,592</u>	<u>1,892,752</u>
Total liabilities and equity	<u><u>\$ 3,537,050</u></u>	<u><u>\$ 3,871,871</u></u>

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands, except per-share amounts)		
Revenues	\$2,327,771	\$1,923,108	\$1,607,853
Costs and expenses:			
Cost of revenues	1,370,309	1,235,540	1,204,196
Research and development	357,016	331,175	274,813
Selling, general and administrative	303,651	317,362	320,227
Amortization of acquisition-related intangible assets	195,304	174,745	108,335
Costs and settlement charges related to shareholder matter	14,310	—	—
Impairment of acquisition-related intangible assets	—	33,944	—
Impairment related to assets held for sale	—	37,219	—
Goodwill impairment charge	—	488,504	—
Restructuring costs	9,088	26,131	90,084
(Gain) related to investment in Deca Technologies Inc.	—	(112,774)	—
(Gain) on divestiture of TrueTouch® Mobile business	—	—	(66,472)
Total costs and expenses	<u>2,249,678</u>	<u>2,531,846</u>	<u>1,931,183</u>
Operating income (loss)	<u>78,093</u>	<u>(608,738)</u>	<u>(323,330)</u>
Interest expense	(80,215)	(55,192)	(16,356)
Other income (expense), net	4,268	313	(3,769)
Loss before income taxes and non-controlling interest	<u>2,146</u>	<u>(663,617)</u>	<u>(343,455)</u>
Income tax (provision)	(11,157)	(2,616)	(16,960)
Share in net loss and impairment of equity method investees	<u>(71,772)</u>	<u>(17,644)</u>	<u>(7,148)</u>
Net loss	<u>(80,783)</u>	<u>(683,877)</u>	<u>(367,563)</u>
Net (gain) loss attributable to non-controlling interest, net of taxes	<u>(132)</u>	<u>643</u>	<u>2,271</u>
Net loss attributable to Cypress	<u>\$ (80,915)</u>	<u>\$ (683,234)</u>	<u>\$ (365,292)</u>
Net loss per share attributable to Cypress:			
Basic	\$ (0.24)	\$ (2.14)	\$ (1.21)
Diluted	\$ (0.24)	\$ (2.14)	\$ (1.21)
Cash dividends declared per share	\$ 0.44	\$ 0.44	\$ 0.44
Shares used in net (loss) per share calculation:			
Basic	333,451	319,522	302,036
Diluted	333,451	319,522	302,036

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Twelve Months Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Net loss	(80,783)	(683,877)	(367,563)
Other comprehensive (loss) income:			
Net change in unrealized (losses) gains on available for sale securities	—	—	28
Net unrecognized gain on defined benefit plan	324	(1,214)	26
Net unrealized gain (loss) on cash flow hedges:	—	—	—
Net unrealized gain (loss) arising during the period	511	(5,186)	(1,651)
Net loss reclassified into earnings for revenue hedges (effective portion)	(4,634)	13,650	(1,678)
Net loss reclassified into earnings for revenue hedges (ineffective portion)	—	(173)	—
Net loss reclassified into earnings from expense hedges (ineffective portion)	—	—	80
Net loss (gain) reclassified into earnings for expense hedges (effective portion)	10,586	(15,661)	3,014
Provision for income tax	662	—	—
Net unrealized gain (loss) on cash flow hedges	7,125	(7,370)	(235)
Other comprehensive gain (loss)	7,449	(8,584)	(181)
Comprehensive income (loss)	(73,334)	(692,461)	(367,744)
Comprehensive loss attributable to non-controlling interest	(132)	643	2,271
Comprehensive income (loss) attributable to Cypress	<u>\$(73,466)</u>	<u>\$(691,818)</u>	<u>\$(365,473)</u>

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, except share amounts)								
Balances at December 28, 2014	306,167	\$3,039	\$2,675,170	\$ (46)	\$ (379,913)	143,154	\$(2,090,493)	\$(5,892)	\$ 201,865
Net loss attributable to Cypress	—	—	—	—	(365,292)	—	—	—	(365,292)
Net unrealized gain (loss) on available-for-sale investments	—	—	—	(181)	—	—	—	—	(181)
Changes in employee deferred compensation plan assets	—	—	—	—	—	—	(227)	—	(227)
Yield enhancement structured agreements, net	—	(96)	(9,118)	—	—	1,000	—	—	(9,214)
Assumption of stock options and awards related to Spansion Merger	163,932	—	2,666,865	—	—	—	—	—	2,666,865
Assumption of 2.00% Spansion Exchangeable Notes related to Spansion Merger	—	—	287,362	—	—	—	—	—	287,362
Issuance of common shares under employee stock plans	11,813	1,694	53,863	—	—	—	—	—	55,557
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	234	(2,455)	—	(2,455)
Repurchase of common shares	—	—	—	—	—	5,248	(55,018)	—	(55,018)
Stock-based compensation	—	—	85,977	—	—	—	—	—	85,977
Dividends	—	—	(146,545)	—	—	—	—	—	(146,545)
Noncontrolling interest	—	—	—	—	—	—	—	(2,271)	(2,271)
Balances at January 3, 2016	481,912	\$4,637	\$5,613,574	\$ (227)	\$ (745,205)	149,636	\$(2,148,193)	\$(8,163)	\$2,716,423
Net loss attributable to Cypress	—	—	—	—	(683,234)	—	—	—	(683,234)
Net unrealized gain (loss) on available-for-sale investments	—	—	—	(7,344)	(2)	—	—	—	(7,346)
Unrealized gain (loss) on defined benefit pension plan	—	—	—	(1,240)	—	—	—	—	(1,240)
Changes in employee deferred compensation plan assets	—	—	—	—	—	—	(94)	—	(94)
Issuance of common shares under employee stock plans	15,143	100	48,166	—	—	—	—	—	48,266
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	887	(11,320)	—	(11,320)
Repurchase of common shares	—	—	—	—	—	22,949	(175,694)	—	(175,694)
Stock-based compensation	—	—	98,781	—	—	—	—	—	98,781
Issuance of 4.5% 2022 Senior Exchangeable Notes	—	—	47,686	—	—	—	—	—	47,686
Purchase of capped calls related to 4.5% 2022 Senior Exchangeable Notes	—	—	(8,165)	—	—	—	—	—	(8,165)
Dividends	—	—	(140,398)	—	—	—	—	—	(140,398)
Deconsolidation of Deca	—	—	—	—	—	—	—	6,838	6,838
Noncontrolling interest	—	—	—	—	—	—	—	2,249	2,249
January 1, 2017	497,055	4,737	5,659,644	(8,811)	(1,428,441)	173,472	(2,335,301)	924	\$1,892,752
Net loss attributable to Cypress	—	—	—	—	(80,915)	—	—	—	(80,915)
Net unrealized gain (loss) on available-for-sale and other investments	—	—	—	7,125	—	—	—	—	7,125
Unrealized gain (loss) on defined benefit pension plan	—	—	—	324	—	—	—	—	324
Changes in employee deferred compensation plan assets	—	—	—	—	—	—	477	—	477
Adoption of ASU 2016-09	—	—	2,350	—	(2,350)	—	—	—	—
Issuance of common shares under employee stock plans	11,316	26	47,245	—	—	—	—	—	47,271
Issuance of common shares upon conversion of 2% 2020 Spansion Exchangeable Notes	17,348	173	283,634	—	—	27	—	—	283,807
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	—	(120)	—	(120)
Stock-based compensation	—	—	90,261	—	—	—	—	—	90,261
Issuance of 2% 2023 Exchangeable Notes	—	—	15,028	—	—	—	—	—	15,028
Extinguishment of 2% 2020 Spansion Exchangeable Notes	—	—	(290,591)	—	—	—	—	—	(290,591)
Dividends	—	—	(147,959)	—	—	—	—	—	(147,959)
Noncontrolling interest	—	—	—	—	—	—	—	132	132
Balances at December 31, 2017	525,719	\$4,936	\$5,659,612	\$(1,362)	\$(1,511,706)	173,498	\$(2,334,944)	\$ 1,056	\$1,817,592

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Cash flows from operating activities:			
Net loss	\$(80,783)	\$(683,877)	\$(367,563)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Stock-based compensation expenses	91,581	98,513	83,690
Depreciation and amortization	264,905	265,922	241,584
Impairment of acquisition-related intangible assets	—	33,944	—
Impairment related to assets held for sale	—	37,219	—
Impairment of goodwill	—	488,504	—
(Gain) on divestitures	(1,245)	—	(66,472)
(Gain) related to investment in Deca Technologies	—	(112,774)	—
(Gain) loss on sale or retirement of property and equipment, net	(1,165)	7,375	424
Share in net loss and impairment of equity method investees	71,772	17,644	7,148
Accretion of interest expense on Senior Exchangeable Notes and amortization of debt and financing costs on other debt	21,091	13,139	2,537
Loss on trading securities	—	598	3,191
Loss on extinguishment of debt	7,246	—	—
Restructuring and other costs	8,997	27,235	11,623
Changes in operating assets and liabilities, net of effects of acquisitions and divestiture:			
Accounts receivable	37,046	(41,022)	(117,371)
Inventories	14,327	(33,677)	288,264
Other current and long-term assets	9,629	(12,225)	(5,977)
Price adjustments and other distributor related reserves	19,067	100,389	31,705
Accounts payable and other liabilities	(58,981)	79,476	(89,737)
Deferred margin on sales to distributors	—	(68,964)	(14,245)
Net cash provided by operating activities	403,487	217,419	8,801
Cash flows from investing activities:			
Acquisitions, net of cash acquired	—	(550,000)	(105,130)
Proceeds from maturities of available-for-sale investments	—	40,000	800
Proceeds from sales of available-for-sale investments	—	45,904	16,584
Purchases of available-for-sale securities	—	(80,202)	(1,530)
Contributions, net of distributions to deferred compensation plan	2,562	(1,857)	1,511
Acquisition of property, plant and equipment	(54,284)	(57,398)	(47,206)
Proceeds from sales of property and equipment	2,340	—	—
Investment in Deca Technologies Inc.	—	17,627	—
Cash paid for equity and cost method investments	(9,285)	(27,149)	(34,126)
Proceeds from divestitures	45,500	—	88,635
Other	(1,262)	(364)	1,375
Net cash used in investing activities	(14,429)	(613,439)	(79,087)
Cash flows from financing activities:			
Repurchase of common stock	—	(175,694)	(55,018)
Proceeds from employee stock-based awards	47,153	43,850	52,857
Yield enhancement structured agreements settled in cash, net	—	—	387
Yield enhancement structured agreements settled in stock, net	—	—	(9,601)
Payments of cash dividends	(144,749)	(141,410)	(127,995)
Purchase of capped calls	—	(8,165)	—
Proceeds from settlement of capped calls	—	—	25,293
Repayment of equipment leases, loans and other	(112)	(11,061)	(9,420)
Borrowings under senior secured revolving credit facility	190,000	195,000	537,000
Borrowings under Term Loans	91,250	450,000	97,228
Repayments of senior secured revolving credit facility	(432,000)	(312,000)	(315,000)
Repayment of Term Loans	(118,701)	(10,625)	—
Financing costs related to debt	(12,475)	(27,893)	(2,491)
Payment for extinguishment of 2% 2020 Spansion Exchangeable Notes	(128,000)	—	—
Proceeds from issuance of Exchangeable Notes	150,000	287,500	—
Net cash provided by (used in) financing activities	(357,634)	289,502	193,240
Net increase (decrease) in cash and cash equivalents	31,424	(106,518)	122,954
Cash and cash equivalents, beginning of year	120,172	226,690	103,736
Cash and cash equivalents, end of year	151,596	120,172	226,690
Supplemental disclosures:			
Dividends payable	\$ 38,741	\$ 35,506	\$ 36,549
Cash paid for income taxes	6,576	8,288	8,736
Cash paid for interest	53,131	32,625	9,670
Unpaid purchases of property, plant and equipment	14,291	3,960	6,663

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

Cypress Semiconductor Corporation (“Cypress” or the “Company”) manufactures and sells advanced embedded system solutions for automotive, industrial, home automation and appliances, consumer electronics and medical products. Cypress’ microcontrollers, analog integrated circles (“ICs”), wireless and wired connectivity solutions and memories help engineers design differentiated products and help them with speed to market. Cypress is committed to providing customers with support and engineering resources.

On March 12, 2015, the Company completed the merger (“Spansion Merger”) with Spansion Inc. (“Spansion”) pursuant to the Agreement and Plan of Merger and Reorganization, as of December 1, 2014, (the “Merger Agreement”), for a total consideration of approximately \$2.8 billion.

On July 5, 2016, the Company completed its acquisition of certain assets primarily related to the Internet of Things business (“IoT business”) of Broadcom Corporation (“Broadcom”) pursuant to an Asset Purchase Agreement with Broadcom, dated April 28, 2016, for a total consideration of approximately \$550 million.

On July 29, 2016, Deca Technologies Inc. (“Deca”), our majority-owned subsidiary, entered into a share purchase agreement (the “Purchase Agreement”), whereby certain third-party investors purchased 41.1% of the shares outstanding at the said date for an aggregate consideration of approximately \$111.4 million. Concurrently, Deca repurchased certain of its preferred shares from the Company. As a result of these transactions, the Company has changed the method of accounting for its investment in Deca from consolidation to the equity method of accounting.

The comparability of results for the periods presented is significantly impacted by these transactions.

Basis of Preparation

The Company reports on a fiscal-year basis. The Company ends its quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Fiscal 2017 ended on December 31, 2017, fiscal 2016 ended on January 1, 2017 and fiscal 2015 ended on January 3, 2016. Fiscal years 2017 and 2016 each contained 52 weeks. Fiscal 2015 contained 53 weeks.

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. Actual results could differ from those estimates.

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and include the accounts of Cypress and all of its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Certain balances included on the Consolidated Balance Sheet and in the Consolidated Statement of Cash Flows for prior periods have been reclassified to conform to the current period presentation.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the Company's investments in equity securities in publicly traded companies are classified as trading securities. All of the Company's investments in debt securities 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)" on the Consolidated Balance Sheets. The Company also has minority equity investments in privately-held companies. Minority equity investments in which the Company's ownership interest is less than 20% are carried at cost less any other than temporary impairment write-downs. Minority equity investments in which the Company's ownership interest is 20% or greater are accounted for using the equity method of accounting. Under the equity method of accounting, the Company is required to record its interest in the investee's reported net income or (loss) for each reporting period. The Company's equity method investments are included in "Equity Method Investments" on the Consolidated Balance Sheets.

The Company monitors its investments for impairment periodically and records appropriate reductions in carrying values when the declines are determined to be other-than-temporary.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash equivalents, debt investments, interest rate swap obligations, trade accounts receivable and the capped calls. The Company's investment policy requires cash investments to be placed with high-credit quality institutions and limits the amount of credit risk from any one issuer. The Company performs ongoing credit evaluations of its customers' financial condition whenever deemed necessary and generally does not require collateral. The Company mitigates its exposure to credit risk to the extent that its counterparties for hedging transactions may be unable to meet the terms of the transactions. The Company mitigates this risk by limiting its counterparties to major financial institutions.

Outstanding accounts receivable from one of the Company's distributors, accounted for 28% of the consolidated accounts receivable as of December 31, 2017. Outstanding accounts receivable from one of the Company's distributors, accounted for 24% of the consolidated accounts receivable as of January 1, 2017.

Revenue generated through two of Company's distributors, accounted for 20% and 13%, respectively, of Company's consolidated revenues for fiscal 2017.

Revenue generated through one of the Company's distributors accounted for 23% of the consolidated revenues for fiscal 2016.

Revenue generated through two of the Company's distributors, accounted for 25% and 10% respectively, of the consolidated revenues for fiscal 2015.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or net realizable value. The Company writes down its 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.

Long-Lived Assets

Property, plant and equipment are stated at cost, less accumulated depreciation and amortization. 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	3 to 10 years
Buildings and leasehold improvements	5 to 20 years
Furniture and fixtures	3 to 7 years

The Company evaluates its 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 the Company's 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 analysis.

Assets Held for Sale

The Company considers properties to be assets held for sale when management approves and commits to a plan to dispose of a property or group of properties. Assets held for sale are recorded initially at the lower of its carrying value or its estimated fair value, less estimated costs to sell. Upon designation as an asset held for sale, the Company stops recording depreciation expense on such assets. Costs to sell a disposal group include incremental direct costs to transact the sale and represent the costs that result directly from and are essential to a sale transaction that would not have been incurred by the entity had the decision to sell not been made.

The properties that are held for sale prior to the sale date are classified as held for sale and are presented separately in the appropriate asset and liability sections of the balance sheet. See *Note 5* of the Notes to the Consolidated Financial Statements for more information.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Company assesses goodwill for impairment on an annual basis on the first day of the fourth quarter of our fiscal year and if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. In accordance with ASU 2011-8, Testing Goodwill for Impairment, qualitative factors may be assessed to determine whether it is necessary to perform the current two-step test for goodwill impairment. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. See *Note 3* of the Notes to the Consolidated Financial Statements for more information.

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. See *Note 4* of the Notes to the Consolidated Financial Statements for more information.

Acquisition related In-process Research and Development

Acquisition-related in-process research and development represents the fair value of incomplete research and development projects that have not reached technological feasibility as of the date of acquisition. Initially, these assets are not subject to amortization. The incomplete projects are reviewed each quarter for impairment related to cancellation, change in business plans as well as completion. Assets related to projects that have been completed are transferred to developed technology, which are subject to amortization.

Convertible debt

In accounting for each series of Senior Exchangeable Notes at issuance, the Company separated the Notes into debt and equity components according to accounting standards codification (“ASC”) 470-20 for convertible debt instruments that may be fully or partially settled in cash upon conversion. The carrying amount of the debt component, which approximates its fair value, was estimated by using an interest rate for non-convertible debt, with terms similar to the Notes. The excess of the principal amount of the Notes over the fair value of the debt component was recorded as a debt discount and a corresponding increase in additional paid-in capital. The debt discount is accreted to the carrying value of the Notes over their term as interest expense using the effective interest method. In accounting for the transaction costs incurred relating to issuance of the Notes, the Company allocated the costs of the offering in proportion to the fair value of the debt and equity recognized in accordance with the accounting standards. The transaction costs allocated to the debt are being amortized as interest expense over the term of the Notes.

The fair value of debt immediately prior to its derecognition is calculated based on the remaining expected life of the debt instrument and an updated current non-convertible debt rate assumption. The gain or loss on extinguishment equaling the difference between the calculated fair value of the debt immediately prior to its derecognition and the carrying amount of the debt components, including the

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

remaining unamortized debt discount, is recorded in the Consolidated Statements of Operations. The remainder of the consideration relates to the reacquisition of the equity component and as an adjustment to additional paid-in-capital.

In accounting for the cost of the capped call transaction entered in connection with the issuance of the 4.5% 2022 Senior Exchangeable Notes, the Company included the cost as a net reduction to additional paid-in capital in the stockholders' equity section of the consolidated balance sheet, in accordance with the guidance in ASC 815-40 Derivatives and Hedging-Contracts in Entity's Own Equity. See *Note 14* of the Notes to the Consolidated Financial Statements for more information.

Revenue Recognition

The Company generates revenues by selling products to distributors, various types of manufacturers including original equipment manufacturers ("OEMs") and electronic manufacturing service providers ("EMSs"). The Company recognizes 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. The Company typically recognizes revenue from sales of its products to distributors upon shipment. An allowance for estimated distributor credits covering price adjustments is recorded based on historical experience rates as well as economic conditions and contractual terms. Any effects of change in estimates related to distributor price adjustments are recorded as an adjustment to revenue.

The Company had historically recognized a significant portion of revenue through distributors at the time the distributor resold the product to its end customer (also referred to as the sell-through basis of revenue recognition). The Company continuously reassesses its ability to reliably estimate the ultimate price of these products and, over the past several years, has made investments in its systems and processes around its distribution channel to improve the quality of the information it receives from its distributors. Given these ongoing investments, and based on financial framework used for estimating potential price adjustments, in the fourth quarter of 2014 the Company began recognizing revenue on certain product and with certain distributors (less its estimate of future price adjustments and returns) upon shipment to the distributors (also referred to as the sell-in basis of revenue recognition).

During fiscal 2016, the Company recognized \$59.2 million of incremental revenue from this change in revenue recognition, which resulted in a reduction of the Company's net loss of \$19.5 million for fiscal 2016, or \$0.06 per basic and diluted share. As at the end of fiscal 2016, 100% of the distribution revenue had been converted to sell-in basis of revenue recognition.

During fiscal 2015, the Company recognized \$40.9 million of incremental revenue from this change on additional product families, which resulted in a decrease to the net loss of \$25.0 million or \$0.08 per basic and diluted shares.

The Company records 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. The Company also provides certain distributors and EMSs with volume-pricing discounts, such as rebates

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and incentives, which are recorded as a reduction to revenues at the time of sale. Historically these volume discounts have not been significant.

Employee Benefit Plans

A defined benefit pension plan is accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the corporate bonds yield curve as of end of the most recently completed fiscal year. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long-term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if actual results differ from actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO, being the corridor amount. If the amount of a net gain or loss does not exceed the corridor amount, it will be recorded to other comprehensive income (loss). See *Note 18* of Notes to the Consolidated Financial Statements for further details of the pension plans.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including 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. See *Note 7* of the Notes to the Consolidated Financial Statements for a detailed discussion of fair value measurements.

Cash Flow Hedges

The Company has an on-going cash flow hedge program and enters into cash flow hedges to protect non-functional currency revenue, inventory purchases and certain operating expenses from foreign currency fluctuation. The Company does not enter into derivative securities for speculative purposes. The Company's foreign currency forward contracts that were designated as cash flow hedges have maturities between three and 12 months. The maximum original duration of any contract allowable under the Company's hedging policy is thirteen months. All hedging relationships are formally documented, and the hedges are designed to offset changes to future cash flows on hedged transactions at the inception of the hedge. The Company recognizes derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measures them at fair value on a monthly basis. The Company records changes in the intrinsic value of its cash flow hedges in accumulated other comprehensive income on the Consolidated Balance Sheets, until the forecasted transaction occurs. Interest charges or "forward points" on the forward contracts are excluded from the assessment of hedge effectiveness and are recorded in other income (expense), net in the Consolidated Statements of Operations. When the forecasted transaction occurs, the Company reclassifies the related gain or loss on the cash flow hedge to revenue or costs, depending on the risk hedged. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company will reclassify the gain or loss on the related cash flow hedge from accumulated other

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

comprehensive income to other income (expense), net in its Consolidated Statements of Operations at that time.

The Company evaluates hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and records any ineffective portion of the hedge in other income (expense), net in its Consolidated Statements of Operations.

See *Note 11* of Notes to the Consolidated Financial Statements for further details of the contracts.

Shipping and Handling Costs

The Company records costs related to shipping and handling of our products in cost of revenues.

Advertising Costs

Advertising costs consist of development and placement costs of the Company's advertising campaigns and are charged to expense when incurred. Advertising expense was \$3.2 million, \$3.1 million and \$5.0 million for fiscal years 2017, 2016 and 2015, respectively.

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 the Company's 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. The Company recognizes potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its 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 the Company determines 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.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Cuts and Jobs Act (the "Act"). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The GILTI provision is effective for the Company beginning after December 31, 2017. The Company is currently analyzing the differences between book and tax basis amounts which could potentially reverse in future periods, resulting in an increase or decrease in GILTI in the period of reversal. Because of the complexity of the new provisions, the Company is continuing to evaluate the related accounting under U.S. GAAP, wherein companies are allowed to make an accounting policy election to either (i) account for GILTI as a component of tax expense in the period in which the tax is incurred (the "period cost method"), or (ii) account for GILTI in the Company's measurement of deferred taxes (the

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

“deferred method”). Currently, the Company has not elected a method and will only do so after its completion of the analysis of the GILTI provisions. However, due to the valuation allowance position in the U.S., regardless of the method chosen, the Company does not expect to record a tax provision associated with the GILTI provisions until such time as the U.S. federal deferred taxes are more likely than not to be realized.

Foreign Currency Transactions

The Company uses the United States dollar as the functional currency for all of its 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 total gains (losses) from foreign currency re-measurement for fiscal years 2017, 2016 and 2015 were \$(1.8) million, \$(4.3) million and \$0.7 million respectively and are included in “Other income (expense), net,” in the Consolidated Statements of Operations. For additional details related to items included in “Other income (expense), net ,” see *Note 13* of the Notes to the Consolidated Financial Statements.

Net loss per Share

Basic net loss per share is calculated by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to all dilutive potential of shares of common stock outstanding during the period including stock options or warrants, using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock options or warrants), and exchangeable notes, using the treasury stock method. Diluted EPS excludes all dilutive potential of shares of common stock if their effect is anti-dilutive.

Impact of Recently Issued Accounting Pronouncements

The following are the accounting pronouncements issued but not adopted that may materially affect the Company’s consolidated financial statements:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standard Update (“ASU”) on revenue from contracts with customers, ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASC 606”) which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition standards. The new standard requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five-step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current standard. The new standard will be effective for the Company starting in the first quarter of fiscal 2018. Two methods of adoption are permitted: (a) full retrospective adoption, meaning this standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has selected the modified retrospective transition method. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements including the potential impact of the additional disclosure requirement primarily because the Company transitioned to the sell-in basis of revenue recognition by the end of 2016, as described in *Note 1*. The timing of revenue recognition of sale of custom products is also not expected to change as such custom products typically have an alternative use. The non-recurring engineering arrangements will require the Company to use an input method as the basis for recognizing revenue, however, the impact is not expected to be material upon adoption as there were no material open non-recurring engineering arrangements as of December 31, 2017. The Company is implementing changes to its accounting policies, internal controls, and disclosures to support the new standard; however, these changes will not be material.

In February 2016, the FASB issued ASU 2016-02, Leases, (“Topic 842”), which replaces most current lease guidance when it becomes effective. This standard update intends to increase the transparency and improve comparability by requiring entities to recognize assets and liabilities on the balance sheet for all leases, with certain exceptions. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. The new guidance will be effective for the Company starting in the first quarter of fiscal 2019. Early adoption is permitted. The Company is currently evaluating the effect that the new guidance will have on its consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, “Intra- Entity Transfers of Assets Other Than Inventory.” For public entities, ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company will adopt this guidance in the first quarter fiscal 2018. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The standard eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit’s goodwill. Instead, an entity should recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the impact this guidance will have on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting.” ASU 2017-09 amends the requirements in GAAP related to accounting for changes to stock compensation awards. The guidance in ASU 2017-09 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements and related disclosures.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The amendments in ASU 2017-12 are intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance in ASU 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the impact this guidance will have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies several aspects of the accounting for share-based payments transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 as of the first day of the 2017 fiscal year. The provisions of ASU 2016-09 related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements and forfeitures were adopted using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of January 2, 2017. The provisions of ASU 2016-09 related to the recognition of excess benefits in the income statement and classification in the statement of cash flows were adopted prospectively and the prior periods were not retrospectively adjusted. The Company has elected to recognize forfeitures as they occur and adopted this change using a modified retrospective approach, with a cumulative adjustment recorded to opening accumulated deficit. The Company recorded a cumulative effect adjustment to opening accumulated deficit of \$2.3 million, with a commensurate increase in paid-in capital. The previously unrecognized tax benefits were recorded as deferred tax asset of \$138.0 million, which was fully offset by a valuation allowance resulting in no impact to opening accumulated deficit. In addition, due to the full valuation allowance on the U.S. deferred tax assets, there was no impact to the income tax provision from excess tax benefits in fiscal 2017 as a result of this adoption.

Revision of Previously Issued Financial Statements

During the fiscal year ended December 31, 2017, certain immaterial errors that originated in fiscal years ended January 1, 2017 and January 3, 2016 were identified. The Company assessed the materiality of these errors in accordance with the SEC guidance on considering the effects of prior-period misstatements based on an analysis of quantitative and qualitative factors on both the annual and interim period financial statements. Based on this analysis, the Company determined that these errors were immaterial to each of the prior fiscal years and interim periods within those fiscal years. However, the Company has concluded that correcting these errors in its fiscal 2017 financial statements would materially understate the net loss for the year ending December 31, 2017. Accordingly, the Company has reflected the correction of these prior period errors in the periods in which they originated and revised its consolidated balance sheet as of January 1, 2017, and its consolidated statement of operations and comprehensive income (loss), its consolidated statement of stockholders’ equity, and its consolidated statement of cash flows for the years ended January 1, 2017 and January 3, 2016.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

These errors consisted primarily of errors in certain assumptions and calculations used in the determination of non-cash stock-based compensation primarily relating to the Employee Share Purchase Program (“ESPP”). These errors resulted in an overstatement of expenses and net loss or understatement of net income, and did not impact cash generated from operations, related to the fiscal years ended January 3, 2016 and January 1, 2017 and the first three quarters in the fiscal year ended December 31, 2017. The impact of these errors on internal controls over financial reporting has been included in Item 9A of this Form 10-K. In addition, concurrent with the correction of the aforementioned items, the Company is also revising its previously issued financial statements for certain other immaterial prior period errors that were previously corrected through out-of-period adjustments in the Company’s consolidated financial statements in reporting periods other than those in which these errors originated.

The effect of the immaterial corrections on the consolidated balance sheet as of January 1, 2017 are as follows:

	As of January 1, 2017		
	(In thousands)		
	As previously reported	Adjustments	As revised
Revised Consolidated Balance Sheet Amounts:			
Additional paid-in-capital	\$ 5,676,236	\$(16,592)	\$ 5,659,644
Accumulated deficit	\$(1,445,033)	\$ 16,592	\$(1,428,441)

The effect of the immaterial corrections on the consolidated statement of operations for the fiscal years 2016 and 2015 are as follows:

Revised Consolidated Statements of Operations Amounts	Year Ended January 1, 2017			Year Ended January 3, 2016		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
	(In thousands, except per-share amounts)					
Cost of revenues	\$1,237,974	\$(2,434)	\$1,235,540	\$1,207,850	\$ (3,654)	\$1,204,196
Research and development	331,737	(562)	331,175	281,391	(6,578)	274,813
Selling, general and administrative	317,383	(21)	317,362	323,570	(3,343)	320,227
Total costs and expenses	2,534,863	(3,017)	2,531,846	1,944,758	(13,575)	1,931,183
Operating loss	(611,755)	3,017	(608,738)	(336,905)	13,575	(323,330)
Loss before income taxes and non-controlling interest	(666,634)	3,017	(663,617)	(357,030)	13,575	(343,455)
Net loss	(686,894)	3,017	(683,877)	(381,138)	13,575	(367,563)
Net loss attributable to Cypress	\$ (686,251)	\$ 3,017	\$ (683,234)	\$ (378,867)	\$ 13,575	\$ (365,292)
Net loss per share attributable to Cypress:						
Basic	\$ (2.15)	\$ 0.01	\$ (2.14)	\$ (1.25)	\$ 0.04	\$ (1.21)
Diluted	\$ (2.15)	\$ 0.01	\$ (2.14)	\$ (1.25)	\$ 0.04	\$ (1.21)

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effect of the immaterial corrections on the consolidated statements of comprehensive income (loss) for the fiscal years 2016 and 2015 are as follows:

Revised Consolidated Statements of Comprehensive Income (Loss):	Year Ended January 1, 2017			Year Ended January 3, 2016		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
	(In thousands)					
Net loss	\$(686,894)	\$3,017	\$(683,877)	\$(381,138)	\$13,575	\$(367,563)
Comprehensive loss	(695,478)	3,017	(692,461)	(381,319)	13,575	(367,744)
Comprehensive loss attributable for Cypress .	\$(694,835)	\$3,017	\$(691,818)	\$(379,048)	\$13,575	\$(365,473)

The effect of the immaterial corrections on the consolidated statements of stockholders' equity for the fiscal years 2016 and 2015 are as follows:

Revised Consolidated Statement of Stockholders' Equity:

	Year Ended January 1, 2017					
	As previously reported		Adjustments		As revised	
	Additional Paid-In Capital	Accumulated Deficit	Additional Paid-In Capital	Accumulated Deficit	Additional Paid-In Capital	Accumulated Deficit
	(In thousands)					
Net loss attributable to Cypress	\$ —	\$(686,251)	\$ —	\$3,017	\$ —	\$(683,234)
Stock-based compensation	\$105,536	\$ —	\$(6,755)	\$ —	\$98,781	\$ —

Revised Consolidated Statement of Stockholders' Equity:

	Year Ended January 3, 2016					
	As previously reported		Adjustments		As revised	
	Additional Paid-In Capital	Accumulated Deficit	Additional Paid-In Capital	Accumulated Deficit	Additional Paid-In Capital	Accumulated Deficit
	(In thousands)					
Net income attributable to Cypress	\$ —	\$(378,867)	\$ —	\$13,575	\$ —	\$(365,292)
Stock-based compensation	\$95,814	\$ —	\$(9,837)	\$ —	\$85,977	\$ —

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effect of the immaterial corrections on the consolidated statements of cash flows for the fiscal years 2016 and 2015 are as follows:

Revised Consolidated Statements of Cash Flows:	Year ended January 1, 2017			Year ended January 3, 2016		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
	(In thousands)					
Net (loss) income	\$(686,894)	\$ 3,017	\$(683,877)	\$(381,138)	\$13,575	\$(367,563)
Stock-based compensation expense	105,268	(6,755)	98,513	93,527	(9,837)	83,690
Changes in accounts payable and other liabilities	76,699	2,777	79,476	(86,960)	(2,777)	(89,737)
Changes in price adjustment reserve for sales to distributors	99,428	961	100,389	32,666	(961)	31,705
Net cash provided by operating activities	\$ 217,419	\$ —	\$ 217,419	\$ 8,801	\$ —	\$ 8,801

The effect of the immaterial corrections on the disclosures related to stock-based compensation for the fiscal years 2016 and 2015 are as follows:

Revised Stock-Based Compensation Footnote:	Year Ended January 1, 2017			Year Ended January 3, 2016		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
	(In thousands)					
Cost of revenues	\$ 21,366	\$(3,395)	\$17,971	\$16,459	\$(2,693)	\$13,766
Research and development	41,528	(3,339)	38,189	25,719	(3,801)	21,918
Selling, general, and administrative	42,374	(21)	42,353	51,349	(3,343)	48,006
Total stock-based compensation expense	<u>\$105,268</u>	<u>\$(6,755)</u>	<u>\$98,513</u>	<u>\$93,527</u>	<u>\$(9,837)</u>	<u>\$83,690</u>

Revised Stock-Based Compensation Footnote:	Year Ended January 1, 2017			Year Ended January 3, 2016		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
	(In thousands)					
Stock options	\$ 700	\$ —	\$ 700	\$ 1,920	\$ —	\$ 1,920
Restricted stock units and restricted stock awards	81,905	3,265	85,170	74,897	—	74,897
ESPP	22,663	(10,020)	12,643	16,710	(9,837)	6,873
Total stock-based compensation expense	<u>\$105,268</u>	<u>\$(6,755)</u>	<u>\$98,513</u>	<u>\$93,527</u>	<u>\$(9,837)</u>	<u>\$83,690</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effect of the immaterial corrections on the disclosures related to deferred tax assets and liabilities as at January 1, 2017 is as follows:

<u>Revised income tax footnote disclosures:</u>	<u>Year Ended January 1, 2017</u>		
	<u>As previously reported</u>	<u>Adjustments</u> <u>(In thousands)</u>	<u>As revised</u>
Credits and net operating loss carryovers	\$ 493,879	\$ 2,569	\$ 496,448
Reserves and accruals	133,614	(13,161)	120,453
Excess of book over tax depreciation	35,886	—	35,886
Deferred income	26,457	—	26,457
Total deferred tax assets	689,836	(10,592)	679,244
Less valuation allowance	(458,674)	13,644	(445,030)
Deferred tax assets, net	231,162	3,052	234,214
Deferred tax liabilities:			
Foreign earnings and others	(160,862)	(3,052)	(163,914)
Intangible assets arising from acquisitions	(71,960)	—	(71,960)
Total deferred tax liabilities	(232,822)	(3,052)	(235,874)
Net deferred tax assets	<u>\$ (1,660)</u>	<u>\$ —</u>	<u>\$ (1,660)</u>

The accompanying notes to these consolidated financial statements reflect the impact of the correction of the errors through the revision noted above.

NOTE 2. MERGERS AND ACQUISITIONS

Acquisition of IoT Business from Broadcom

On July 5, 2016, the Company completed its acquisition of certain assets primarily related to the IoT business of Broadcom Corporation (“Broadcom”) pursuant to an Asset Purchase Agreement, dated April 28, 2016. In connection with the closing of the transaction, the Company paid Broadcom \$550 million in cash. The results of the business acquired as part of this acquisition is reported in the Company’s Microcontroller and Connectivity Division.

The acquisition was accounted for using the purchase method of accounting. Approximately \$9.2 million in expenses were incurred as acquisition expenses related to the IoT business and were recorded in Selling, general and administrative line item in the Consolidated Statements of Operations.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. MERGERS AND ACQUISITIONS (Continued)

The table below represents the allocation of the purchase price to the net assets acquired based on their estimated fair values:

	<u>Final allocation as of January 1, 2017</u>
Intangible assets	\$324,000
Property, plant and equipment	16,270
Inventories	11,655
Other current assets	6,550
Other long-term assets	4,203
Goodwill	<u>189,094</u>
Total assets acquired	<u>\$551,772</u>
Other current liabilities	(1,199)
Other long-term liabilities	<u>(573)</u>
Total liabilities assumed	<u>(1,772)</u>
Fair value of net assets acquired	<u><u>\$550,000</u></u>

The purchase price was allocated based on the estimated net tangible and intangible assets of the IoT business that existed on the date of the acquisition. The fair value of identifiable intangible assets acquired was based on estimates and assumptions made by management at the time of the acquisition.

Identifiable intangible assets

The table below shows the valuation of the intangible assets acquired from Broadcom along with their estimated useful lives:

	<u>Amount</u> <u>(in thousands)</u>	<u>Estimated life</u> <u>(in years)</u>
Existing Technology	\$189,300	4
In-Process Research and Development Technology Arrangement	88,900	N/A
Backlog	13,500	<1
Customer Relationships	20,000	10
License Agreements	3,700	1
Trademarks	<u>8,600</u>	4
Total intangible assets	<u><u>\$324,000</u></u>	

In-process research and development (“IPR&D”) consisted of six projects. Of these projects, three projects were completed in fiscal 2017 and the remaining three projects are expected to be completed during fiscal 2018 . The estimated remaining costs to complete the IPR&D projects were approximately \$8.9 million as of the acquisition date. The acquired IPR&D will not be amortized until completion of the related products which is determined by when the underlying projects reach technological feasibility and commence commercial production. Upon completion, each IPR&D project will be amortized over its useful life which are expected to be approximately 4 years.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. MERGERS AND ACQUISITIONS (Continued)

Goodwill

The excess of the fair value of the purchase consideration over the fair values of these identifiable assets and liabilities was recorded as goodwill. The goodwill recognized is primarily attributable to the assembled workforce, a reduction in costs and other synergies, and an increase in product development capabilities. Goodwill was initially allocated to the Company's previous Data Communications Division and was reallocated to the new Microcontroller and Connectivity Division during the fourth quarter of 2016. The goodwill resulting from the acquisition is deductible for tax purposes.

Spansion Merger

On March 12, 2015, the Company completed the merger ("Merger") with Spansion Inc. ("Spansion") pursuant to the Agreement and Plan of Merger and Reorganization, as of December 1, 2014 (the "Merger Agreement"), for a total consideration of approximately \$2.8 billion. In accordance with the terms of the Merger Agreement, Spansion shareholders received 2,457 Cypress shares for each Spansion share they owned. The shareholders of each company initially owned approximately 50% of the post-merger company. The Merger has been accounted for under the acquisition method of accounting with Cypress treated as the accounting acquirer.

The total purchase consideration of approximately \$2.8 billion consisted of the following:

	Amount
	(In thousands)
Fair value of Cypress common stock issued to Spansion shareholders . .	\$2,570,458
Fair value of partially vested Spansion equity awards assumed by Cypress	6,825
Fair value of vested Spansion options assumed by Cypress	89,582
Cash provided by Cypress to repay Spansion term loan	150,000
Total purchase consideration	\$2,816,865

In connection with the Merger, the Company assumed stock options and RSUs originally granted by Spansion and converted them into Cypress stock options and RSUs. The fair value of the stock options assumed were determined using a Black-Scholes valuation model with market-based assumptions. The fair value of partially vested Spansion equity awards was \$15.68 per share, the Cypress closing stock price on March 12, 2015. The fair value of unvested equity awards relating to future services, and not yet earned, is being recorded as operating expenses over the remaining service periods. Option pricing models require the use of highly subjective market assumptions, including expected stock price volatility, which if changed can materially affect fair value estimates.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. MERGERS AND ACQUISITIONS (Continued)

The table below represents the final allocation of the purchase price to the net assets acquired based on their estimated fair values:

	<u>Final allocation as of January 3, 2016</u>
Cash and cash equivalents	\$ 44,870
Short-term investments	1,433
Accounts receivable, net	99,387
Inventories	450,634
Other current assets	56,630
Property, plant and equipment, net	356,908
Intangible assets, net	860,700
Goodwill	1,673,186
Other long-term assets	63,497
Total assets acquired	<u>\$3,607,245</u>
Accounts payable	(155,336)
Accrued compensation and benefits	(44,669)
Income taxes payable	(1,399)
Other current liabilities	(158,113)
Deferred income taxes and other long term liabilities	(18,202)
Other non current liabilities	(21,477)
Long-term debt (1)	(391,184)
Total liabilities assumed	<u>\$ (790,380)</u>
Fair value of net assets acquired	<u>\$2,816,865</u>

(1) Includes the fair value of the debt and equity components of Spansion's Exchangeable 2.00% Senior Notes assumed by the Company.

The table below shows the valuation of the intangible assets acquired from Spansion, along with their estimated useful lives:

	<u>Amount</u>	<u>Estimated range of lives</u>
	(In thousands)	(in years)
Existing Technology	\$507,100	4 to 6
In-Process Research and Development Technology	212,300	N/A
Backlog	14,500	1
Customer/Distributor Relationships	97,300	9
License Agreements	9,400	3
Trade Name / Trademarks	20,100	10
Total intangible assets	<u>\$860,700</u>	

The purchase price was allocated based on the estimated net tangible and intangible assets of Spansion that existed on the date of the Merger. The fair value of identifiable intangible assets

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. MERGERS AND ACQUISITIONS (Continued)

acquired was based on estimates and assumptions made by management at the time of the Merger. The Company finalized its purchase price allocation in the fourth quarter of 2015 when additional information became available, which resulted in change in values allocated to identifiable assets and liabilities.

Identifiable intangible assets

Developed technologies acquired primarily consisted of Spansion's existing technologies related to embedded systems semiconductors, which include flash memory, microcontroller, mixed-signal and analog products. An income approach was used to value Spansion's developed technologies. Using this approach, the estimated fair value was calculated using expected future cash flows from specific products discounted to their net present values at an appropriate risk-adjusted rate of return.

Customer relationships represented the fair value that will be derived from the sale of products to Spansion's existing customers based on existing, in-process, and future versions of the existing technology. Customer relationships were valued utilizing a form of the income approach known as the "distributor" method since the primary income producing asset of the business was determined to be the technology assets. Under this premise, the margin a distributor owns is deemed to be the margin attributable to the customer relationships. This isolates the cash flows attributable to the customer relationships that a market participant would be willing to pay for.

Trade names and trademarks are considered a type of guarantee of a certain level of quality or performance represented by the Spansion brand. Trade names and trademarks were valued using the "relief-from-royalty income" approach. This method is based on the assumption that in lieu of ownership, a market participant would be willing to pay a royalty in order to exploit the related benefits of this asset.

License agreements represented the estimated fair value of Spansion's existing license agreements under which Spansion generated revenue by licensing its intellectual property to third parties and assists its customers in developing and prototyping their designs by providing software and hardware development tools, drivers and simulation models for system-level integration. License agreements were valued using a form of the income approach known as the of "multi-period excess earnings" approach. Under this approach, the expected cash flows associated with the License agreements were projected then discounted to present value at a rate of return that considers the relative risk of achieving the cash flows and the time value of money.

In-process research and development ("IPR&D") represented the estimated fair values of incomplete Spansion research and development projects that had not reached technological feasibility as of the date of Merger. Fair value of each project at the Merger date is being either amortized or impaired depending on whether the projects are completed or abandoned. The fair value of IPR&D was determined using the multi-period excess earnings method under the income approach. This method reflects the present value of the projected cash flows that are expected to be generated by the IPR&D less charges representing the contribution of other assets to those cash flows. A discount rate of 10.5% was used to discount the cash flows to the present value.

IPR&D consisted of 21 projects, primarily relating to the development of process technologies to manufacture NOR, NAND, Analog, and MCU products. The acquired IPR&D is amortized until completion of the related products which is determined by when the underlying projects reach

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. MERGERS AND ACQUISITIONS (Continued)

technological feasibility and commence commercial production. Upon completion, each IPR&D project will be amortized over its useful life; useful lives for IPR&D are expected to range between 4 years and 6 years.

As of December 31, 2017, 17 out of 21 projects originally identified, representing \$97.1 million of the total capitalized IPR&D of \$212.3 million, had reached technological feasibility and were transferred to developed technology. During fiscal 2016, the Company recognized a \$33.9 million impairment charge related to two IPR&D projects that were canceled due to changes in the Company's product portfolio strategy. The impairment charges are included in the "Impairment of acquisition-related intangible assets" line in the Consolidated Statements of Operations. There are two remaining IPR&D projects which are expected to be completed in fiscal 2018.

Goodwill

The excess of the fair value of the Merger consideration over the fair values of these identifiable assets and liabilities was recorded as goodwill. The goodwill recognized is primarily attributable to the assembled workforce, a reduction in costs and other synergies, and an increase in product development capabilities. The goodwill resulting from the Merger is not expected to be deductible for tax purposes. Goodwill has been allocated to the reporting units expected to benefit from the Merger.

Pro forma consolidated results of operations

The following unaudited pro forma financial data for the years ended January 3, 2016 and January 1, 2017 assume that the acquisitions of the IoT business and Spansion Merger had occurred at the beginning of fiscal year 2016. The pro forma information includes adjustments to amortization and depreciation for intangible assets and property, plant and equipment, adjustments to stock-based compensation expense, and interest expense for the incremental indebtedness incurred, amortization of the step up to fair value of acquired inventory, acquisition related expenses and tax related expenses. The pro forma data are for informational purposes only and are not necessarily indicative of the consolidated results of operations of the combined business had the acquisition actually occurred at the beginning of fiscal year 2015 or of the results of future operations of the combined businesses. Consequently, actual results will differ from the unaudited pro forma information presented below.

	Years Ended	
	January 1, 2017	January 3, 2016
	(In thousands, except per-share amounts)	
Revenues	\$2,018,124	\$1,982,824
Net loss	\$ (722,342)	\$ (491,969)
Net loss per share attributable to Cypress		
Basic	\$ (2.26)	\$ (1.63)
Diluted	\$ (2.26)	\$ (1.63)

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. GOODWILL

Annual impairment assessment

Goodwill is subject to an annual impairment test during the Company's fourth quarter of each fiscal year, or earlier if indicators of potential impairment exist, using either a qualitative or a quantitative assessment. The Company's impairment review process compares the fair value of the reporting unit in which the goodwill resides to its carrying value.

In fiscal 2017, the Company elected to perform a qualitative analysis for impairment on goodwill based on which no goodwill impairment was identified in fiscal 2017. In assessing the qualitative factors, the Company considered the impact of these key factors: 1) change in the industry and competitive environment, 2) market capitalization, 3) stock price and 4) overall financial performance.

During the fourth quarter of fiscal 2016, immediately prior to and immediately after the reallocation of goodwill to the new reporting units, the Company performed a quantitative assessment to test goodwill for impairment. The Company estimated the fair values of its reporting units using a combination of the income and market approach. These valuation approaches consider a number of factors that include, but are not limited to, forecasted financial information, growth rates, terminal or residual values, discount rates and comparable multiples from publicly traded companies in the Company's industry and require the Company to make certain assumptions and estimates regarding industry economic factors and the future profitability of its business. Based on this goodwill impairment test, the Company estimated that the fair value of equity of all reporting units exceeded their carrying value immediately prior to and immediately after the reorganization. As such, no impairment in the carrying value of goodwill was identified during the fourth quarter of fiscal 2016.

The next annual evaluation of the goodwill by reporting unit will be performed during the fourth quarter of fiscal year 2018, or earlier if indicators of potential impairment exist. Such indicators include, but are not limited to, challenging economic conditions, such as a decline in the Company's operating results, an unfavorable industry or macroeconomic environment, a substantial decline in our stock price, or any other adverse change in market conditions. Such conditions could have the effect of changing one of the critical assumptions or estimates the Company uses to calculate the fair value of its reporting units, which could result in a decrease in fair value and require it to record goodwill impairment charges.

Goodwill as at December 31, 2017 and January 1, 2017 was \$1.4 billion, of which \$782.9 million and \$656.6 million was allocated to Microcontroller & Connectivity Division ("MCD") and Memory Products Division ("MPD") respectively.

Changes in carrying value and allocation of goodwill

During fiscal years 2014, 2015 and through the first three quarters of fiscal 2016, the Company had four reporting units—MPD, Programmable Solutions Division ("PSD"), Data Communications Division ("DCD") and Emerging Technologies Division ("ETD"), of which MPD, PSD and DCD carried goodwill.

During the second quarter of fiscal 2016, the Company concluded that a combination of factors, including (a) decreases in its forecasted operating results when compared with the expectations of the PSD reporting unit at the time of the Spansion Merger, primarily in consumer markets as the Company has subsequently increased its focus on the automotive and industrial end markets, (b) evaluation of business priorities due to recent changes in management, and (c) certain market conditions necessitated

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. GOODWILL (Continued)

a quantitative impairment analysis for the carrying value of the Goodwill related to PSD which resulted in an impairment charge of \$488.5 million.

As a result of the IoT business acquisition during the third quarter of fiscal 2016, the DCD reporting unit recorded \$189.1 million in goodwill.

As a result of a reorganization in the operations of the Company, effective in the beginning of the fourth quarter of fiscal 2016, the Company has two reporting units MPD and MCD. Upon the change of the reporting units, the carrying value of goodwill was reallocated to the new MPD and MCD reporting units based on relative fair values of the respective reporting units. Immediately prior to and following the reallocation, an analysis to assess the recoverability of the carrying value of goodwill was carried out which did not indicate any impairment.

The changes in the carrying amount of goodwill by reportable segment for the year ended December 31, 2017 were as follows:

	<u>MPD</u>	<u>PSD</u>	<u>DCD</u>	<u>MCD</u>	<u>Total</u>
	(in thousands)				
Goodwill as of January 3, 2016(1)	<u>\$ 770,046</u>	<u>\$ 968,836</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,738,882</u>
Goodwill impairment		(488,504)			(488,504)
Goodwill from acquisition of IoT Business	—	—	217,726	—	217,726
Measurement period adjustments	—	—	(28,632)	—	(28,632)
Reallocation of goodwill	<u>(113,447)</u>	<u>(480,332)</u>	<u>(189,094)</u>	<u>782,873</u>	<u>—</u>
Goodwill as of January 1, 2017 and December 31, 2017(2)	<u>\$ 656,599</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$782,873</u>	<u>\$1,439,472</u>

(1) The Company had previously recorded an impairment charge of \$351.3 million in the fourth quarter of fiscal 2008

(2) There were no changes in the carrying amount of goodwill from January 1, 2017 to December 31, 2017.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. INTANGIBLE ASSETS

The following table presents details of the Company's total intangible assets:

	As of December 31, 2017			As of January 1, 2017		
	Gross	Accumulated Amortization	Net(a)	Gross	Accumulated Amortization	Net(a)
	(In thousands)					
Developed technology and other intangible assets						
Acquisition-related intangible assets	\$1,072,824	\$(490,327)	\$582,497	\$1,021,244	\$(295,023)	\$726,221
Non-acquisition related intangible assets	19,884	(10,828)	9,056	12,000	(8,863)	3,137
Total developed technology and other intangible assets .	\$1,092,708	\$(501,155)	591,553	\$1,033,244	\$(303,886)	\$729,358
In-process research and development	123,567	—	123,567	175,203	—	175,203
Total intangible assets	<u>\$1,216,275</u>	<u>\$(501,155)</u>	<u>\$715,120</u>	<u>\$1,208,447</u>	<u>\$(303,886)</u>	<u>\$904,561</u>

(a) Included in the intangible assets are in-process research and development (“IPR&D”) projects acquired as part of the Merger and the acquisition of the IoT business, that had not attained technological feasibility and commercial production. IPR&D assets are accounted for initially as indefinite-lived intangible assets until the completion of the associated research and development efforts. Upon completion, the carrying value of every related intangible asset will be amortized over the remaining estimated life of the asset beginning in the period in which the project is completed.

The below table presents details of the IPR&D assets as of December 31, 2017:

	(in thousands)
As of January 3, 2016	\$176,216
Intangibles acquired as part of IoT business (Note 2)	88,900
Technological feasibility achieved	(55,969)
Projects impaired	(33,944)
As of January 1, 2017	175,203
Technological feasibility achieved	(51,636)
As of December 31, 2017	<u>\$123,567</u>

During fiscal 2017, five projects representing \$51.6 million of the total capitalized IPR&D, with estimated useful lives of 5 years, had reached technological feasibility and were transferred to developed technology.

During fiscal 2016, the Company recognized a \$33.9 million impairment charge related to two IPR&D projects that were canceled due to changes in the Company's product portfolio strategy. The impairment charges are included in the “Impairment of acquisition-related intangible assets” line in the Consolidated Statements of Operations.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. INTANGIBLE ASSETS (Continued)

The Company expects the remaining IPR&D projects as of December 31, 2017 to attain technological feasibility in fiscal 2018.

As of December 31, 2017, the estimated future amortization expense related to developed technology and other intangible assets was as follows:

<u>Fiscal Year</u>	<u>(In thousands)</u>
2018	\$198,495
2019	190,114
2020	128,784
2021	34,499
2022 and future	<u>39,661</u>
Total future amortization expense	<u>\$591,553</u>

NOTE 5. ASSETS HELD FOR SALE

In fiscal 2016, the Company committed to a plan to sell its wafer manufacturing facility located in Bloomington, Minnesota, as well as a building in Austin, Texas. The carrying value of these assets held for sale as at the end of fiscal 2016 reflected the lower of the carrying value or fair value, net of estimated costs to sell the assets. The Company performed an analysis and estimated the fair value of the assets, less estimated selling costs, and determined the fair value was lower than the carrying value of the assets. As a result, based on this analysis the Company recorded an impairment charge of \$37.2 million during fiscal 2016 to write these assets down to their estimated fair value, less selling costs.

The sales of the wafer fabrication facility in Minnesota and the sale of the building in Austin were completed during the first quarter of fiscal 2017. During the year ended December 31, 2017, the Company recorded a gain of \$1.2 million resulting from the change in the estimated costs to sell these assets. This gain was recorded in selling, general and administrative line item of the Consolidated Statements of Operations. The Company completed the sale of both of these asset groups during the year ended December 31, 2017 and received gross proceeds from the sales of \$35.5 million.

NOTE 6. INVESTMENT IN EQUITY METHOD INVESTMENTS

Privately-held equity investments are accounted for under the equity method of accounting if the Company has an ownership interest of 20% or greater or if it has the ability to exercise significant influence over the operations of such companies.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENT IN EQUITY METHOD INVESTMENTS (Continued)

The below table presents the changes in the carrying value of the equity method investments.

	As of December 31, 2017		
	(In thousands)		
	Deca Technologies Inc. ("Deca")	Enovix Corporation ("Enovix")	Total
Carrying value as of January 3, 2016	\$ —	\$ 41,330	\$ 41,330
Fair value at change in basis of accounting . .	142,508	—	142,508
Additional investment	—	23,000	23,000
Equity in net loss of equity method investees	<u>(8,181)</u>	<u>(9,970)</u>	<u>(18,151)</u>
Carrying value as of January 1, 2017	134,327	54,360	188,687
Additional investment	—	5,600	5,600
Equity in net loss of equity method investees	(11,813)	(8,773)	(20,586)
Impairment in investment	—	<u>(51,187)</u>	<u>(51,187)</u>
Carrying value as of December 31, 2017	<u>\$122,514</u>	<u>\$ —</u>	<u>\$122,514</u>

The following table presents summarized aggregate financial information derived from the respective consolidated financial statements of Deca and Enovix.

	Year Ended	
	December 31, 2017	January 1, 2017
	(in thousands)	
Operating data:		
Revenue	\$ 15,500	\$ 15,529
Gross loss	(8,964)	(13,555)
Loss from operations	(44,415)	(44,401)
Net loss	(43,589)	(44,881)
Net loss attributable to Cypress	\$(20,586)	\$(18,151)

The following table represents the assets and liabilities held by Deca and Enovix as of December 31, 2017 and January 1, 2017.

	For the Year Ended	
	December 31, 2017	January 1, 2017
	(in thousands)	
Balance Sheet Data:		
Current Assets	\$70,101	\$90,842
Long-term Assets	\$55,673	\$45,686
Current Liabilities	\$15,615	\$10,764
Long-term Liabilities	\$ 1,859	\$ 2,906

The Company's investments are periodically reviewed for other-than-temporary declines in fair value by considering available evidence, including general market conditions, financial condition, pricing

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENT IN EQUITY METHOD INVESTMENTS (Continued)

in recent rounds of financing, if any, earnings and cash flow forecasts, recent operational performance and any other readily available market data.

Deca Technologies Inc.

On July 29, 2016, Deca, a majority owned subsidiary of the Company entered into a share purchase agreement (the “Purchase Agreement”), whereby certain third-party investors purchased 41.1% of the shares outstanding at the said date for an aggregate consideration of approximately \$111.4 million. Concurrently, Deca repurchased certain of its preferred shares from Cypress.

After giving effect to the above transactions, the Company’s ownership in Deca was reduced to 52.2% as of July 29, 2016. As a consequence of the substantive rights afforded to third-party new investors in the Purchase Agreement, including, among other things, participation on the Board of Directors of Deca, the approval of operating plans, approval of indebtedness, the Company determined that it no longer has the power to direct the activities of Deca that most significantly impact Deca’s economic performance. However, since the Company continues to have significant influence over Deca’s financial and operating policies, effective July 29, 2016, the investment in Deca is being accounted for as an equity method investment and is no longer a consolidated subsidiary. The carrying value of this equity method investment as of July 29, 2016 was determined based on the fair value of the equity in Deca, which was estimated to be \$142.5 million. This represents the Company’s remaining investment in Deca immediately following the investments by the third-party investors. As a result of the change in the method of accounting for the Company’s investment in Deca from consolidation to the equity method of accounting, the net carrying value of the assets and liabilities related to Deca, and the adjustments related to the recognition of the initial fair value of the equity method investment resulted in a gain of \$112.8 million which has been reflected as “Gain related to investment in Deca Technologies Inc.” in the Consolidated Statements of Operations.

The Company held 52.5% of Deca’s outstanding voting shares as of December 31, 2017 and January 1, 2017.

Enovix Corporation

In 2017, the Company completed its investment commitment in Enovix of \$85.1 million per the original agreement dated February 22, 2012. Certain third-party investors made additional investments in Enovix in 2017, as a result of which the Company’s ownership in Enovix decreased from 46.6% as of January 1, 2017 to 41.2% as of December 31, 2017.

During the fourth quarter of fiscal 2017, the Company determined that its investment in Enovix, which is accounted for as an equity method investment, was other-than temporarily impaired as it did not achieve certain key planned product development milestones. The Company considered various factors in determining whether to recognize an impairment charge, including the expectations of the investee’s future cash flows and capital needs, the length of time the investee has been in a loss position, the ability to achieve milestones, and the near-term prospect of the investee and its exit strategy. Enovix’s estimated enterprise value is sensitive to its ability to achieve these milestones. Consequently, the Company recognized a charge of \$51.2 million in order to write down the carrying amount of the investment to zero. This amount was recorded in “Share in net loss and impairment of equity method investees” in the Consolidated Statements of Operations.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. FAIR VALUE MEASUREMENTS

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and January 1, 2017:

	As of December 31, 2017			As of January 1, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In thousands)					
Financial Assets						
Cash equivalents:						
Money market funds	\$20,477	\$ —	\$20,477	\$ 287	\$ —	\$ 287
Other current assets:						
Certificates of deposit	—	972	972	—	972	972
Total Cash equivalents and other current assets . .	20,477	972	21,449	287	972	1,259
Employee deferred compensation plan assets:						
Cash equivalents	3,561	—	3,561	3,809	—	3,809
Mutual funds	27,321	—	27,321	22,658	—	22,658
Equity securities	12,994	—	12,994	11,974	—	11,974
Fixed income	3,415	—	3,415	4,088	—	4,088
Stable Value Funds	—	2,204	2,204	—	3,045	3,045
Total employee deferred compensation plan assets	47,291	2,204	49,495	42,529	3,045	45,574
Foreign Exchange Forward Contracts	—	1,197	1,197	—	6,605	6,605
Total financial assets	<u>\$67,768</u>	<u>\$4,373</u>	<u>\$72,141</u>	<u>\$42,816</u>	<u>\$10,622</u>	<u>\$53,438</u>
Financial Liabilities						
Foreign Exchange Forward Contracts	—	1,426	1,426	—	15,582	15,582
Employee deferred compensation plan liability . .	48,425	2,204	50,629	43,314	3,045	46,359
Total financial liabilities	<u>\$48,425</u>	<u>\$3,630</u>	<u>\$52,055</u>	<u>\$43,314</u>	<u>\$18,627</u>	<u>\$61,941</u>

Fair Value of Financial Instruments:

Fair value is 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. The Company's financial assets and financial liabilities that require recognition under the guidance generally include available-for-sale investments, employee deferred compensation plans 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 the Company. Unobservable inputs are inputs that reflect the Company's 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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. FAIR VALUE MEASUREMENTS (Continued)

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—includes instruments for which quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. The Company's financial assets utilizing Level 1 inputs include U.S. treasuries, money market funds, marketable equity securities and our employee deferred compensation plan assets.
- Level 2—includes instruments for which the valuations are based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. The Company's Level 2 instruments include certain U.S. government securities, commercial paper, corporate notes and bonds and our employee deferred compensation plan liabilities. Foreign currency forward contracts are classified as Level 2 because the valuation inputs are based on observable market data of similar instruments. The Company principally executes its foreign currency contracts in the retail market in an over-the-counter environment with a relatively high level of price transparency. The market participants and the Company's counterparties are large money center banks and regional banks. The valuation inputs for the Company's foreign currency contracts are based on observable market data from public data sources (specifically, forward points, LIBOR rates, volatilities and credit default rates at commonly quoted intervals) and do not involve management judgment.
- Level 3—includes instruments for which the valuations are based on inputs that are unobservable and significant to the overall fair value measurement. As of December 31, 2017 and January 1, 2017, the Company did not own any material financial assets utilizing Level 3 inputs on a recurring basis.

The Company determines the basis of the cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings using the specific identification method.

There were no material transfers between Level 1, Level 2 and Level 3 fair value hierarchies during fiscal 2017 and 2016.

There were no unrealized gains or losses on available-for-sale securities as of 2017, 2016 and 2015. Realized gains and realized losses from sales of available-for-sale in fiscal 2017, 2016 and 2015 were not material.

As of December 31, 2017, the contractual maturities of the Company's available-for-sale investments and certificates of deposit were less than a year.

In December 2017, the Company entered into fixed-for-floating interest rate forward swap agreements with two counter parties, to swap variable interest payments on certain debt for fixed interest payments. In fiscal 2017, the gross asset and liability at fair value was \$0.6 million and the net impact to the Consolidated Statement of Operations was immaterial. See *Note 11* of the Note to the Consolidated Financial Statements for a detail discussion.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain of the Company's assets, including intangible assets, goodwill and cost-method investments, are measured at fair value on a nonrecurring basis if impairment is indicated.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. FAIR VALUE MEASUREMENTS (Continued)

As of December 31, 2017, the carrying value of the Company's Senior Secured Revolving Facility was \$90.0 million (See *Note 14*). The carrying value of the Company's Senior Secured Revolving Facility approximates its fair value since it bears an interest rate that is comparable to rates on similar credit facilities and is determined using Level 2 inputs.

The Company's 2% 2020 Spansion Exchangeable Notes assumed as part of the Merger is traded in the secondary market and is categorized as Level 2. The principal of the Notes and the estimated fair value of the principal as of December 31, 2017 is \$22.0 million and \$66.4 million respectively. See *Note 14* of the Notes to the Consolidated Financial Statements for further details.

The Company's 4.50% 2022 Senior Exchangeable Notes are traded in the secondary market and its fair value is determined using Level 2 inputs. The principal of the Notes and the estimated fair value as of December 31, 2017, were \$287.5 million and \$378.1 million, respectively. See *Note 14* of the Notes to the Consolidated Financial Statements for further details.

The Company's 2.00% 2023 Exchangeable Notes are traded in the secondary market and its fair value is determined using Level 2 inputs. The principal of the Notes and the estimated fair value of the principal as of December 31, 2017, were \$150.0 million and \$159.8 million, respectively. See *Note 14* of the Notes to the Consolidated Financial Statements for further details.

NOTE 8. BALANCE SHEET COMPONENTS

Accounts Receivable, net

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Accounts receivable, gross	\$301,465	\$338,061
Allowances for doubtful accounts receivable and sales returns	(5,474)	(5,024)
Accounts receivable, net	\$295,991	\$333,037

Inventories

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Raw materials	\$ 15,635	\$ 15,525
Work-in-process	176,427	208,525
Finished goods	80,065	63,726
Total inventories	\$272,127	\$287,776

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. BALANCE SHEET COMPONENTS (Continued)

Other Current Assets

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Prepaid tooling	\$ 21,132	\$ 21,687
Restricted cash	996	4,206
Advance to suppliers	15,968	16,549
Prepaid royalty and licenses	16,630	17,769
Derivative assets	1,197	6,605
Value added tax receivable	11,412	11,625
Receivable from sale of TrueTouch [®] Mobile business	—	10,000
Prepaid expenses	17,737	22,965
Withholding tax receivable and tax advance	5,790	3,384
Other current assets	<u>12,775</u>	<u>7,372</u>
Total other current assets	<u>\$103,637</u>	<u>\$122,162</u>

Property, Plant and Equipment, Net

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Land	\$ 29,813	\$ 29,844
Equipment	559,573	493,498
Buildings, building and leasehold improvements . . .	174,559	175,589
Construction in progress	17,836	36,066
Furniture and fixtures	<u>5,117</u>	<u>6,728</u>
Total property, plant and equipment, gross	786,898	741,725
Less: Accumulated depreciation and amortization . .	<u>(497,344)</u>	<u>(444,459)</u>
Total property, plant and equipment, net	<u>\$ 289,554</u>	<u>\$ 297,266</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. BALANCE SHEET COMPONENTS (Continued)

Other Long-term Assets

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Employee deferred compensation plan	\$ 49,495	\$ 45,574
Investments in cost method equity securities	17,017	13,331
Deferred tax assets	4,293	4,463
Long-term licenses	8,654	14,498
Advances to suppliers	11,315	25,207
Deposit—non-current	9,830	4,698
Pension—non-current	8,026	6,792
Prepaid tooling and other non-current assets	38,409	33,379
Total other long-term assets	<u>\$147,039</u>	<u>\$147,942</u>

Other Current Liabilities

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Employee deferred compensation plan	\$ 50,629	\$ 46,359
Restructuring accrual—current portion (see Note 10)	9,580	24,029
Derivative liability	2,033	15,582
Accrued expenses	47,789	67,933
Accrued interest	8,094	10,422
Customer advances	12,873	332
Other current liabilities	12,487	15,641
Total other current liabilities	<u>\$143,485</u>	<u>\$180,298</u>

Other Long-Term Liabilities

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Long-term pension and other employee-related liabilities	\$16,779	\$14,672
Restructuring accrual—non-current portion (see Note 10)	8,596	11,294
Asset retirement obligation	5,693	5,067
Other long-term liabilities	4,374	5,716
Total other long-term liabilities	<u>\$35,442</u>	<u>\$36,749</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION

The Company's equity incentive plans are broad-based, long-term programs intended to attract and retain talented employees and align stockholder and employee interests.

The Company currently has the following employee stock plans:

1999 Stock Option Plan ("1999 Plan"):

The 1999 Plan expired in March 2009. There are currently no shares available for grant under the 1999 Plan. Under the 1999 Plan 0.6 million shares are issued and outstanding. Any outstanding shares cancelled or forfeited under the 1999 Plan will not be available for any future grants since the 1999 Plan has expired.

2013 Stock Option Plan ("2013 Plan"):

At the 2013 Annual Shareholders Meeting, the Company's shareholders approved the extension of the 1994 Stock Plan to January 15, 2024 and renamed the plan as the 2013 Stock Plan. The 2013 Plan provides for (1) the discretionary granting of Options, Stock Appreciation Rights ("SARs"), Restricted Stock Awards ("RSAs") or Restricted Stock Units ("RSUs") 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 (2) the grant of Nonstatutory Stock Options, SARs, Restricted Stock or RSUs to Outside Directors pursuant to an automatic, non-discretionary formula. Options or awards granted under the 2013 Stock Plan generally expire over terms not exceeding eight years from the date of grant, subject to earlier termination upon the cessation of employment or service of the recipients. The maximum aggregate number of shares authorized for issuance under the 2013 Stock Plan is 203.6 million shares. As of December 31, 2017, 44.3 million options or 23.6 million RSUs and RSAs were available for grant under the 2013 Stock Plan. At the annual shareholder meeting on June 20, 2017, Cypress' shareholders approved an increase in the number of shares issuable under the Cypress 2013 Stock Plan by 29.1 million shares that could be issued as full value awards (such as restricted stock units (RSUs), and performance stock units (PSUs)), or an appreciation awards (such as stock options and/or stock appreciation rights) (if awards are granted only in the form of RSUs or other full value awards, this increase in shares would allow for the issuance of only up to 15.5 million shares, to a total of 31.0 million reserved but unissued shares under the 2013 Stock Plan.

2010 Equity Incentive Award Plan ("2010 Plan")

In connection with the Company's Merger with Spansion, it assumed their 2010 Plan, as amended, which reserves a total of 16.0 million shares of common stock for issuance under stock options, stock appreciation rights, restricted stock units, restricted stock, performance awards, stock payments, dividend equivalents and deferred stock to its employees, consultants and non-employee members of its Board of Directors. The 2010 Plan provides that incentive stock options may only be granted to employees of the Company or its subsidiaries. All stock options expire if not exercised by the seventh anniversary of the grant date. Annual RSU awards granted generally vest over a period of two to four years. Options granted become exercisable in full or in installments pursuant to the terms of each agreement evidencing options granted. The exercise of stock options and issuance of restricted stock and restricted stock units is satisfied by issuing authorized common stock or treasury stock. Shares that are subject to or underlie awards that expire or for any reason are canceled, terminated or forfeited, or

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

fail to vest will again be available for grant under the 2010 Plan. Grants from this plan are limited to employees who joined Cypress as part of the Merger and grants to new Cypress' employees. As of December 31, 2017, 2.7 million shares of stock options or RSUs and RSAs were available for grant under the 2010 Plan.

2012 Incentive Award Plan ("2012 Plan"):

In connection with the Company's acquisition of Ramtron in 2012, it assumed their 2012 Plan, as amended, which reserves a total of 1.2 million shares of common stock for issuance under stock option or restricted stock grants. The exercise price of all non-qualified stock options must be no less than 100% of the fair market value on the effective date of the grant under the 2012 Plan, and the maximum term of each grant is seven years. The 2012 Plan permits the issuance of incentive stock options, the issuance of restricted stock, and other types of awards. Restricted stock grants generally vest five years from the date of grant. Options granted become exercisable in full or in installments pursuant to the terms of each agreement evidencing options granted. The exercise of stock options and issuance of restricted stock and restricted stock units is satisfied by issuing authorized common stock or treasury stock. Grants from this plan are limited to employees who joined Cypress as part of the Ramtron acquisition and grants to new Cypress employees. As of December 31, 2017, 154 thousand shares of stock options or 101 thousand RSUs and RSAs were available for grant under the 2012 Plan.

Employee Stock Purchase Plan ("ESPP"):

At the 2013 Annual Shareholders Meeting, the Company's shareholders approved an extension of the Company's Employee Stock Purchase Plan ("ESPP Plan") to May 10, 2023. The Company's amended and restated ESPP allows eligible employees to purchase shares of our common stock through payroll deductions. The ESPP contains consecutive 18 months offering periods composed of three six months 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 \$21,250. Starting January 1, 2018, the Company is changing its offering period from 18 months to six months composed of one six -month exercise period. The employees currently enrolled in the ESPP program will have a transition period wherein their ESPP benefit will continue on the old plan. As of December 31, 2017, 2.2 million shares were available for future issuance under the ESPP.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

Stock-Based Compensation

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

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Cost of revenues	\$15,606	\$17,971	\$13,766
Research and development	36,803	38,189	21,918
Selling, general and administrative	39,172	42,353	48,006
Total stock-based compensation expense	<u>\$91,581</u>	<u>\$98,513</u>	<u>\$83,690</u>

Aggregate cash proceeds from the issuance of shares under the employee stock plans were \$47.2 million, \$43.9 million and \$52.9 million for fiscal 2017, fiscal 2016 and 2015, respectively. No income tax benefit was realized from stock option exercises for fiscal 2017, 2016 and 2015. As of December 31, 2017 and January 1, 2017 stock-based compensation capitalized in inventories totaled \$3.3 million and \$4.6 million, respectively.

The following table summarizes stock-based compensation expense by type of awards:

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Stock options	\$ 163	\$ 700	\$ 1,920
Restricted stock units and restricted stock awards	82,946	85,170	74,897
ESPP	8,472	12,643	6,873
Total stock-based compensation expense	<u>\$91,581</u>	<u>\$98,513</u>	<u>\$83,690</u>

The following table summarizes the unrecognized stock-based compensation balance, net of estimated forfeitures, by type of awards as of December 31, 2017:

(In thousands)		Weighted-Average Amortization Period
		(In years)
Stock options	\$ 123	0.60
Restricted stock units and restricted stock awards	67,870	1.47
ESPP	4,104	0.78
Total unrecognized stock-based compensation balance, net of estimated forfeitures	<u>\$72,097</u>	<u>1.43</u>

During fiscal 2016, the Company, as part of the severance agreement executed with the former CEO and severance agreements with two other executives, accelerated the vesting of certain awards previously granted and modified the vesting conditions. Included in the stock-based compensation

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

expense for the year ended January 1, 2017 is an amount of \$4.3 million related to the impact of the said modifications.

Valuation Assumptions

The Company estimates the fair value of its stock-based equity awards using the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model were as follows:

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
ESPP:			
Expected life	0.5 - 1.5 years	0.5 - 1.5 years	0.5 - 1.5 years
Volatility	34.8% - 38.1%	36.9% - 38.5%	35.9% - 46.6%
Risk-free interest rate	0.65% - 1.28%	0.37% - 0.61%	0.09% - 0.86%
Dividend yield	3.22% - 3.87%	4.1%	4.5% - 5.2%

Expected life: The expected term represents the average term from the first day of the offering period to the purchase date.

Volatility: The Company determined that implied volatility of publicly traded call options and quotes from option traders on its common stock is more reflective of market conditions and, therefore, can reasonably be a better indicator of expected volatility than historical volatility. Therefore, volatility is based on a blend of historical volatility of the Company's 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: The expected dividend is based on the Company's history, and expected dividend payouts.

Employee Equity Award Activities

As of December 31, 2017, 47.2 million stock options, or 26.4 million RSUs/PSUs, were available for grant under the 2013 Stock Plan, the 2010 Equity Incentive Award Plan (formerly the Spansion 2010 Equity Incentive Award Plan) and the 2012 Incentive Award Plan (formerly the Ramtron Plan).

Stock Options:

As a part of the Merger, Cypress assumed all outstanding Spansion options and these options were converted into options to purchase Cypress common stock at the agreed upon conversion ratio. The exercise price per share for each assumed Spansion option is equal to exercise price per share of Spansion option divided by 2.457.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

The following table summarizes the Company's stock option activities:

	Year Ended					
	December 31, 2017		January 1, 2017		January 3, 2016	
	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	7,947	\$10.70	16,840	\$ 7.99	14,463	\$ 9.24
Options assumed as a part of the Merger	—	\$ —	—	\$ —	8,976	\$12.86
Exercised	(2,898)	\$ 8.80	(8,255)	\$ 5.03	(5,391)	\$ 5.71
Forfeited or expired	(422)	\$13.58	(638)	\$12.54	(1,208)	\$12.75
Options outstanding, end of year	<u>4,627</u>	<u>\$11.63</u>	<u>7,947</u>	<u>\$10.70</u>	<u>16,840</u>	<u>\$ 7.99</u>
Options exercisable, end of year	<u>4,340</u>	<u>\$11.66</u>	<u>6,736</u>	<u>\$10.62</u>	<u>14,366</u>	<u>\$ 7.40</u>

There were no options granted during fiscal years 2017, 2016, and 2015.

The aggregate intrinsic value of the options outstanding and options exercisable as of December 31, 2017 was \$19.2 million and \$18.0 million respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value which would have been received by the option holders had all option holders exercised their options as of December 31, 2017 and does not include substantial tax payments.

The aggregate intrinsic value of the options outstanding and options exercisable as of January 1, 2017 was \$12.9 million and \$12.5 million, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value which would have been received by the option holders had all option holders exercised their options as of January 1, 2017 and does not include substantial tax payments.

The aggregate pre-tax intrinsic value of option exercises, which represents the difference between the exercise price and the value of Cypress common stock at the time of exercise, was \$16.2 million in fiscal 2017, \$46.0 million in fiscal 2016 and \$41.8 million in fiscal 2015.

The aggregate grant date fair value of the options which vested in fiscal 2017, 2016, and 2015 was \$2.7 million, \$3.5 million and \$5.6 million, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about options outstanding and exercisable as of December 31, 2017:

<u>Range of Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Shares</u> (in thousands)	<u>Weighted-Average Remaining Contractual Life</u> (In years)	<u>Weighted-Average Exercise Price per Share</u>	<u>Shares</u> (in thousands)	<u>Weighted-Average Exercise Price per Share</u>
\$2.72 - \$11.55	3,583	2.75	\$10.12	3,320	\$10.07
\$11.58 - \$17.77	695	1.54	\$15.39	672	\$15.47
\$18.86 - \$21.63	299	1.80	\$19.06	298	\$19.06
\$22.88 - \$22.88	42	1.04	\$22.88	42	\$22.88
\$23.23 - \$23.23	8	1.52	\$23.23	8	\$23.23
	<u>4,627</u>	<u>2.49</u>	<u>\$11.63</u>	<u>4,340</u>	<u>\$11.66</u>

The total number of exercisable in-the-money options was 3.6 million shares as of December 31, 2017.

Restricted Stock Units, Performance-Based Restricted Stock Units and Restricted Stock Awards:

The following table summarizes the Company's restricted stock unit, performance-based restricted awards and restricted stock award activities:

	<u>Year Ended</u>					
	<u>December 31, 2017</u>		<u>January 1, 2017</u>		<u>January 3, 2016</u>	
	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value per Share</u>	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value per Share</u>	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value per Share</u>
	<u>(In thousands, except per-share amounts)</u>					
Non-vested, beginning of year	13,780	\$11.83	11,053	\$13.43	7,838	\$10.98
Granted and assumed . . .	6,488	\$13.40	11,318	\$11.19	10,172	\$14.78
Released	(6,248)	\$12.17	(5,890)	\$13.36	(3,594)	\$ 5.60
Forfeited	(2,044)	\$12.22	(2,701)	\$12.36	(3,363)	\$11.66
Non-vested, end of year . .	<u>11,976</u>	<u>\$12.44</u>	<u>13,780</u>	<u>\$11.83</u>	<u>11,053</u>	<u>\$13.43</u>

On March 16, 2017, the Compensation Committee of the Company approved the issuance of service-based and performance-based restricted stock units under the Company's Performance Accelerated Restricted Stock Program ("PARS") to certain employees.

The milestones for the 2017 PARS grants include service and performance conditions including revenue growth, gross margin, profit before tax, debt leverage and strategic initiatives milestones.

The milestones for the 2016 PARS Program, as approved by the Compensation Committee included service condition and performance conditions linked to the Company's total shareholder

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION (Continued)

return (TSR) relative to its peers, achievement of Spansion merger synergies, achievement of non-GAAP earnings per share and margin and certain product development milestones.

The milestones for the 2015 PARS Program, as approved by the Compensation Committee included service condition and performance conditions related to the Company's TSR relative to its peers, achievement of Spansion merger synergies and achievement of non-GAAP earnings per share.

ESPP:

During fiscal 2017, 2016 and 2015, the Company issued 2.4 million, 1.2 million and 2.6 million shares under its ESPP with weighted-average price of \$8.48, \$8.34 and \$8.69 per share, respectively.

NOTE 10. RESTRUCTURING

2017 Restructuring Plan

In December 2017, the Company began implementation of a reduction in workforce ("2017 Plan") which will result in elimination of approximately 80 positions worldwide across various functions. The restructuring charge of \$6.5 million during the year ended December 31, 2017 consists of personnel costs.

2016 Restructuring Plan

In September 2016, the Company began implementation of a reduction in workforce ("2016 Plan") which resulted in elimination of approximately 430 positions worldwide across various functions. The restructuring charge of \$2.6 million during the year ended December 31, 2017 consists of personnel costs and facilities related charges. The personnel costs related to the 2016 plan during the year ended January 1, 2017 were \$26.3 million.

Spansion Integration-Related Restructuring Plan

In March 2015, the Company implemented cost reduction and restructuring activities in connection with the Merger. The restructuring charge of \$90.1 million recorded for the fiscal year ended January 3, 2016 primarily consists of severance costs, lease termination costs and impairment of property, plant and equipment. The lease termination costs include approximately \$18.0 million relating to the buildings Spansion had leased prior to the Merger, which the Company decided not to occupy in the post-merger period. The initial term of the lease commenced on January 1, 2015 and will expire on December 31, 2026.

During fiscal 2016, a release of previously estimated personnel related liability of \$0.1 million was recorded. No charges were recorded during fiscal 2017 for the Spansion Integration Plan.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. RESTRUCTURING (Continued)

Summary of Restructuring Costs

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

	Year Ended		
	(In thousands)		
	December 31, 2017	January 1, 2017	January 3, 2016
Personnel Costs	\$7,479	26,131	\$58,972
Lease termination costs and other related charges	540	—	18,016
Impairment of property, plant and equipment	—	—	12,531
Other	1,069	—	565
Total restructuring and other charges	<u>\$9,088</u>	<u>\$26,131</u>	<u>\$90,084</u>

All restructuring costs are included in the operating expenses under “Restructuring costs” in the Consolidated Statement of Operations.

Roll-forward of the restructuring reserves

Restructuring activity under the Company’s various restructuring plan was as follows:

	Year Ended			
	December 31, 2017			
	(In thousands)			
	2017 Plan	2016 Plan	Spansion Integration plan	Total
Provision	\$ —	\$ —	\$ 81,041	\$ 81,041
Cash payments and other adjustments	—	—	(59,554)	(59,554)
Accrued restructuring balance as of January 3, 2016 . . .	—	—	21,487	21,487
Provision	—	26,261	(130)	26,131
Cash payments and other adjustments	—	(5,157)	(7,138)	(12,295)
Accrued restructuring balance as of January 1, 2017 . . .	—	21,104	14,219	35,323
Provision	6,464	2,624	—	9,088
Cash payments and other adjustments	(325)	(22,985)	(2,922)	(26,232)
Accrued restructuring balance as of December 31, 2017	<u>\$6,139</u>	<u>\$ 743</u>	<u>\$ 11,297</u>	<u>\$ 18,179</u>

The provision for restructuring expense recorded during fiscal 2015 does not include a charge of \$9.0 million related to write off certain leasehold improvements during the first quarter of 2015.

The Company anticipates that the remaining restructuring accrual balance will be paid out in cash through fiscal 2018 for employee terminations and over the remaining lease term through 2026 for the excess lease obligation.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES

The Company enters into multiple foreign exchange forward contracts to hedge certain operational exposures resulting from fluctuations in Japanese yen and Euro exchange rates. The Company does not enter into derivative securities for speculative purposes. The Company's hedging policy is designed to mitigate the impact of foreign currency exchange rate fluctuations on its operating results. Some foreign currency forward contracts are considered to be economic hedges that were not designated as hedging instruments while others were designated as cash flow hedges. Whether designated or undesignated as cash flow hedges or not, these forward contracts protect the Company against the variability of forecasted foreign currency cash flows resulting from revenues, expenses and net asset or liability positions designated in currencies other than the U.S. dollar. The maximum original duration of any contract allowable under the Company's hedging policy is thirteen months for foreign currency hedging contracts.

Cash Flow Hedges

The Company enters into cash flow hedges to protect non-functional currency inventory purchases and certain other operational expenses, in addition to its on-going program of cash flow hedges to protect its non-functional currency revenues against variability in cash flows due to foreign currency fluctuations. The Company's foreign currency forward contracts that were designated as cash flow hedges have maturities between three and nine months. All hedging relationships are formally documented, and the hedges are designed to offset changes to future cash flows on hedged transactions at the inception of the hedge. The Company recognizes derivative instruments from hedging activities as either assets or liabilities on the balance sheet and measures them at fair value on a monthly basis. The Company records changes in the intrinsic value of its cash flow hedges in accumulated other comprehensive income on the Consolidated Balance Sheets, until the forecasted transaction occurs. Interest charges or "forward points" on the forward contracts are excluded from the assessment of hedge effectiveness and are recorded in other income (expense), net in the Consolidated Statements of Operations. When the forecasted transaction occurs, the Company reclassifies the related gain or loss on the cash flow hedge to revenue or costs, depending on the risk hedged. In the event the underlying forecasted transaction does not occur, or it becomes probable that it will not occur, the Company will reclassify the gain or loss on the related cash flow hedge from accumulated other comprehensive income to other income (expense), net in its Consolidated Statements of Operations at that time.

The Company evaluates hedge effectiveness at the inception of the hedge prospectively as well as retrospectively and records any ineffective portion of the hedge in other income (expense), net in its Consolidated Statements of Operations.

At December 31, 2017, the Company had net outstanding forward contracts to buy ¥3,335 million for \$298 million.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11. FOREIGN CURRENCY AND INTEREST RATE DERIVATIVES (Continued)

Non-designated hedges

Total notional amounts of net outstanding contracts were as summarized below. The duration of each contract is approximately thirty days:

<u>Buy / Sell</u>	<u>December 31, 2017</u>	<u>January 1, 2017</u>
	(in millions)	
US dollar / EUR	\$7.4 / €8.8	\$25.0 / €23.6
Japanese Yen / US dollar	¥3,046 / \$27.2	¥10,129 / \$87.9

Interest rate swaps

In December 2017, the Company entered into fixed-for-floating interest rate forward swap agreements starting in April 2018 with two counterparties, to swap variable interest payments on certain debt for fixed interest payments; these agreements will expire in July 2021. The objective of the swaps was to effectively fix the interest rate at current levels without having to refinance the outstanding term loan, thereby avoiding the incurrence of transaction costs. The interest rate on the variable debt will continue to float until it becomes fixed in April 2018. As of December 31, 2017, these swaps were not designated as hedging instruments and the aggregate notional amount of these interest rate swaps was \$300 million. The gross asset and liability at fair value was \$0.6 million and the net impact to the Consolidated Statements of Operations was immaterial. Subsequent to year-end, on January 3, 2018, the Company has evaluated the hedge effectiveness of the interest rate swaps and has designated these swaps as cash flow hedges of the debt. Upon designation as hedge instruments, future changes in fair value of these swaps will be recognized in accumulated other comprehensive income.

The gross fair values of derivative instruments on the Consolidated Balance Sheets as of December 31, 2017 and January 1, 2017 were as follows:

<u>Balance Sheet location</u>	<u>December 31, 2017</u>		<u>January 1, 2017</u>	
	<u>Derivatives designated as hedging instruments</u>	<u>Derivatives not designated as hedging instruments</u>	<u>Derivatives designated as hedging instruments</u>	<u>Derivatives not designated as hedging instruments</u>
	(in thousands)			
<i>Other Current Assets</i>				
Derivative Asset	\$805	\$ 392	\$ 6,468	\$ 137
<i>Non-current Assets</i>				
Derivative Asset	\$ —	\$ 607	\$ —	\$ —
<i>Other Current Liabilities</i>				
Derivative Liability . . .	\$775	\$1,258	\$14,391	\$1,191

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss were as follows:

	Accumulated net unrealized losses on available-for-sale investments and other	Unrecognized Gain on the Defined Benefit Plan	Accumulated other comprehensive loss (income)
	(in thousands)		
Balance as of January 3, 2016	\$ (253)	\$ 26	\$ (227)
Other comprehensive income (loss) before reclassification	(5,186)	—	(5,186)
Amounts reclassified to other income (expense), net	(2,184)	\$ —	(2,184)
Net unrecognized gain (loss) on the defined benefit plan	<u>—</u>	<u>(1,214)</u>	<u>(1,214)</u>
Balance as of January 1, 2017	(7,623)	(1,188)	(8,811)
Other comprehensive income (loss) before reclassification	511	—	511
Amounts reclassified to other income (expense), net	6,614	—	6,614
Net unrecognized gain (loss) on the defined benefit plan	<u>—</u>	<u>324</u>	<u>324</u>
Balance as of December 31, 2017	<u><u>\$ (498)</u></u>	<u><u>\$ (864)</u></u>	<u><u>\$(1,362)</u></u>

NOTE 13. OTHER INCOME (EXPENSE), NET

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

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Interest income	\$ 568	\$ 1,836	\$ 885
Changes in fair value of investments under the deferred compensation plan	6,087	2,326	(1,354)
Unrealized (loss) gain on marketable securities . .	—	325	(4,655)
Foreign currency exchange (losses) gains, net . . .	(1,838)	(4,251)	744
(Loss) gain on sale of investments	—	(265)	276
Other	<u>(549)</u>	<u>342</u>	<u>335</u>
Other income (expense), net	<u><u>\$ 4,268</u></u>	<u><u>\$ 313</u></u>	<u><u>\$(3,769)</u></u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT

Debt is comprised of the following:

	December 31, 2017	January 1, 2017
(in thousands)		
Current portion of long-term debt		
Credit Facility:		
Term Loan A	\$ —	\$ 7,500
Term Loan B	27,303	22,500
Equipment loans and capital lease obligations	—	152
Current portion of long-term debt	<u>27,303</u>	<u>30,152</u>
Credit facility and long-term portion of debt		
Credit Facility		
Senior Revolving Credit Facility	90,000	332,000
Term Loan A	—	84,838
Term Loan B	468,080	406,214
2% 2020 Spansion Exchangeable Notes	20,375	135,401
4.5% 2022 Senior Exchangeable Notes	246,636	236,526
2% 2023 Exchangeable Notes	<u>131,422</u>	<u>—</u>
Credit facility and long-term debt	<u>956,513</u>	<u>1,194,979</u>
Total debt	<u><u>\$983,816</u></u>	<u><u>\$1,225,131</u></u>

2% 2023 Exchangeable Notes

On November 6, 2017, the Company, issued at face value, \$150.0 million of Senior Exchangeable Notes due in 2023 (the “2% 2023 Exchangeable Notes”) in a private placement to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The 2% 2023 Exchangeable Notes are governed by an Indenture (“2017 Indenture”), dated November 6, 2017, between the Company and U.S. Bank National Association, as Trustee. The 2% 2023 Exchangeable Notes will mature on February 1, 2023 unless earlier repurchased or converted, and bear interest of 2% per year payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2018. The 2% 2023 Exchangeable Notes may be due and payable immediately in certain events of default.

The 2% 2023 Exchangeable Notes are exchangeable at an initial exchange rate of 46.7099 shares of common stock per \$1,000 principal amount of the 2% 2023 Exchangeable Notes (equivalent to an initial exchange price of approximately \$21.41 per share) subject to adjustments for anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company’s stock and liquidation, consolidation or merger of the Company. Prior to November 1, 2022, the 2% 2023 Exchangeable Notes will be exchangeable under certain specified circumstances as described in the 2017 Indenture. On or after November 1, 2022, until the close of business on the second scheduled trading day immediately preceding the maturity date, the 2% 2023 Exchangeable Notes will be convertible in multiples of \$1,000 principal amount regardless of the foregoing circumstances.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

Upon conversion, the Company may pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of its common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a pre-defined conversion value.

It is the Company's intent that upon conversion, the Company would pay the holders of the 2% 2023 Exchangeable Notes cash for an amount up to the aggregate principal amount of the Notes. If the conversion value exceeds the principal amount, the Company intends to deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount ("conversion spread"). Accordingly, for the purposes of calculating diluted earnings per share, there would be no adjustment to the numerator in the net income per common share computation for the portion of the Notes that are intended to be cash settled. The conversion spread will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company separated the 2% 2023 Exchangeable Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the estimated fair value of a similar liability that does not have an associated convertible feature. Such amount was based on the contractual cash flows discounted at an appropriate market rate for non-convertible debt at the date of issuance, which was determined to be 89.7% of the par value of the 2% 2023 Exchangeable Notes or \$134.6 million. The carrying amount of the equity component of \$15.5 million representing the conversion option was determined by deducting the fair value of the liability component from the face value of the Exchangeable Notes as a whole. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is accreted to interest expense over the term of the 2% 2023 Exchangeable Notes using the effective interest method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

The Company incurred transaction costs of approximately \$4.1 million relating to the issuance of the 2% 2023 Exchangeable Notes. The transaction costs of \$4.1 million include \$3.4 million of financing fees paid to the initial purchasers of the 2% 2023 Exchangeable Notes, and other estimated offering expenses payable by the Company. In accounting for these costs, the Company allocated the costs of the offering in proportion to the fair value of the debt and equity recognized in accordance with the accounting standards. The transaction costs allocated to the debt component of approximately \$3.7 million are being amortized as interest expense over the term of the 2% 2023 Exchangeable Notes using the effective yield method. The transaction costs allocated to the equity component of approximately \$0.4 million were recorded as a reduction of additional paid-in capital.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

At the debt issuance date, the 2% 2023 Exchangeable Notes, net of issuance costs, consisted of the following (in thousands):

	November 6, 2017
<i>Liability component</i>	
Principal	\$134,550
Less: Issuance cost	<u>(3,678)</u>
Net carrying amount	<u>\$130,872</u>
<i>Equity component</i>	
Allocated amount	\$ 15,450
Less: Issuance cost	<u>(422)</u>
Net carrying amount	<u>\$ 15,028</u>
Exchangeable Notes, net of issuance costs	<u><u>\$145,900</u></u>

The following table includes total interest expense related to the 2% 2023 Exchangeable Notes recognized during the year ended December 31, 2017 (in thousands):

	Year ended December 31, 2017
Contractual interest expense	\$ 452
Amortization of debt issuance costs	106
Accretion of debt discount	444
Total	<u><u>\$1,002</u></u>

The 2% 2023 Exchangeable Notes consisted of the following as of December 31, 2017 and January 1, 2017 (in thousands):

	December 31, 2017	January 1, 2017
Equity component(1)	\$ 15,028	\$—
Liability component:		
Principal	\$150,000	\$—
Less debt discount and debt issuance costs, net(2)	<u>(18,578)</u>	<u>—</u>
Net carrying amount	<u><u>\$131,422</u></u>	<u><u>\$—</u></u>

- (1) Included in the consolidated balance sheets within additional paid-in-capital
- (2) Included in the consolidated balance sheets within Credit facility and long-term debt and is amortized over the remaining life of the 2% 2023 Exchangeable Notes.

4.5% 2022 Senior Exchangeable Notes

On June 23, 2016, the Company, issued at face value, \$287.5 million of Senior Exchangeable Notes due in 2022 (the “4.5% 2022 Senior Exchangeable Notes”) in a private placement to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. The 4.5% 2022 Senior

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

Exchangeable Notes are governed by an Indenture (“2016 Indenture”), dated June 23, 2016, between the Company and U.S. Bank National Association, as Trustee. The 4.5% 2022 Senior Exchangeable Notes will mature on January 15, 2022, unless earlier repurchased or converted, and bear interest of 4.50% per year payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2017. The 4.5% 2022 Senior Exchangeable Notes may be due and payable immediately in certain events of default.

The 4.5% 2022 Senior Exchangeable Notes are exchangeable for an initial exchange rate of 74.1372 shares of common stock per \$1,000 principal amount of the 4.5% 2022 Senior Exchangeable Notes (equivalent to an initial exchange price of approximately \$13.49 per share) subject to adjustments for anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company’s stock and liquidation, consolidation or merger of the Company. Prior to October 15, 2021, the Notes will be exchangeable under certain specified circumstances as described in the 2016 Indenture. On or after October 15, 2021, until the close of business on the second scheduled trading day immediately preceding the maturity date, the 4.5% 2022 Senior Exchangeable Notes will be convertible in multiples of \$1,000 principal amount regardless of the foregoing circumstances.

Upon conversion, the Company may pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of its common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a pre-defined conversion value.

It is the Company’s intent that upon conversion, the Company would pay the holders of the 4.5% 2022 Senior Exchangeable Notes cash for an amount up to the aggregate principal amount of the 4.5% 2022 Senior Exchangeable Notes. If the conversion value exceeds the principal amount, the Company intends to deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount (“conversion spread”). Accordingly, for the purposes of calculating diluted earnings per share, there would be no adjustment to the numerator in the net income per common share computation for the portion of the 4.5% 2022 Senior Exchangeable Notes intended to be settled in cash. The conversion spread will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

At the debt issuance date, the 4.5% 2022 Senior Exchangeable Notes, net of issuance costs, consisted of the following (in thousands):

	<u>June 23, 2016</u>
<i>Liability component</i>	
Principal	\$238,338
Less: Issuance cost	<u>(7,158)</u>
Net carrying amount	<u>\$231,180</u>
<i>Equity component</i>	
Allocated amount	\$ 49,163
Less: Issuance cost	<u>(1,477)</u>
Net carrying amount	<u>\$ 47,686</u>
Exchangeable Notes, net of issuance costs	<u>\$278,866</u>

The following table includes total interest expense related to the Notes recognized during the year ended December 31, 2017 (in thousands):

	<u>Year ended</u>	
	<u>December 31,</u>	<u>January 1,</u>
	<u>2017</u>	<u>2017</u>
Contractual interest expense	\$13,009	\$ 6,900
Amortization of debt issuance costs	1,289	700
Accretion of debt discount	8,885	4,646
Total	<u>\$23,183</u>	<u>\$12,246</u>

The 4.5% 2022 Senior Exchangeable Notes consisted of the following December 31, 2017 and January 1, 2017 (in thousands):

	<u>December 31,</u>	<u>January 1,</u>
	<u>2017</u>	<u>2017</u>
Equity component (1)	\$ 47,686	\$ 47,686
Liability component:		
Principal	\$287,500	\$287,500
Less debt discount and debt issuance costs, net (2)	<u>(40,864)</u>	<u>(50,974)</u>
Net carrying amount	<u>\$246,636</u>	<u>\$236,526</u>

- (1) Included in the consolidated balance sheets within additional paid-in-capital
- (2) Included in the consolidated balance sheets within Credit facility and long-term debt and is amortized over the remaining life of the 4.5% 2022 Exchangeable Notes.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

Capped Calls, 4.5% 2022 Senior Exchangeable Notes

In connection with the issuance of the 4.5% 2022 Senior Exchangeable Notes, the Company entered into capped call transactions with certain bank counterparties to reduce the risk of potential dilution of the Company's common stock upon the exchange of the 4.5% 2022 Senior Exchangeable Notes. The capped call transactions have an initial strike price of approximately \$13.49 and an initial cap price of approximately \$15.27, in each case, subject to adjustment. The capped calls are intended to reduce the potential dilution and/or offset any cash payments the Company is required to make upon conversion of the 4.5% 2022 Senior Exchangeable Notes if the market price of the Company's common stock is above the strike price of the capped calls. If, however, the market price of the Company's common stock is greater than the cap price of the capped calls, there would be dilution and/or no offset of such potential cash payments, as applicable, to the extent the market price of the common stock exceeds the cap price. The capped calls expire in January 2022.

2% 2020 Spansion Exchangeable Notes

Pursuant to the Merger, Cypress assumed 2% 2020 Spansion Exchangeable Notes ("Spansion Notes") on March 12, 2015. The Spansion Notes are governed by a Supplemental Indenture, dated March 12, 2015, between the Company, Spansion and Wells Fargo Bank, National Association, as Trustee. They are fully and unconditionally guaranteed on a senior unsecured basis by the Company. The Spansion Notes will mature on September 1, 2020, unless earlier repurchased or converted, and bear interest of 2% per year payable semi-annually in arrears on March 1 and September 1, commencing on March 1, 2014. The Spansion Notes may be due and payable immediately in certain events of default.

As of December 31, 2017, the Spansion Notes are exchangeable for 198.16 shares of common stock per \$1,000 principal amount of the Spansion Notes (equivalent to an exchange price of \$ 5.05) subject to adjustments for dividends, anti-dilutive issuances and make-whole adjustments upon a fundamental change. A fundamental change includes a change in control, delisting of the Company's stock and liquidation, consolidation or merger of the Company. According to the Indenture, a change in control occurs when a person or group becomes the beneficial owner directly or indirectly, of more than 50% of the Company's common stock. In the case of a consolidation or merger, if the surviving entity continues to be listed, no change of control will be triggered. Prior to June 1, 2020, the Spansion Notes will be exchangeable under certain specified circumstances as described in the Indenture.

Upon conversion, the Company may pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of its common stock, at its election. If the Company satisfies its conversion obligation solely in cash or through payment and delivery, as the case may be, of a combination of cash and shares of our common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a pre-defined conversion value.

It is Company's intent that upon conversion, the Company would pay the holders of the Spansion Notes cash for an amount up to the aggregate principal the Spansion Notes. If the conversion value exceeds the principal amount, the Company intends to deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount ("conversion spread"). Accordingly, for the purposes of calculation of diluted earnings per share, there would be no adjustment to the numerator in the net income per common share computation for the portion of the

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

Notes intended to be settled in cash. The conversion spread, will be included in the denominator for the computation of diluted net income per common share, using the treasury stock method.

On November 1, 2017, the Company entered into a privately negotiated agreement to induce the extinguishment of a portion of the Spansion Notes. The Company paid the holders of the Spansion Notes cash for the aggregate principal of \$128 million and delivered 17.3 million shares of common stock for the conversion spread. The Company recorded \$4.3 million in loss on extinguishment, which included \$1.2 million paid in cash as an inducement premium and a reduction in additional paid-in capital of \$290.6 million towards the deemed repurchase of the equity component of the notes. The loss on extinguishment is recorded in "Interest Expense" in the Consolidated Statement of Operations. See *Note 13* of Notes to the Consolidated Financial Statements for further details.

The following table presents the interest expense recognized on the Spansion Notes during the fiscal year ended December 31, 2017 and January 1, 2017:

	Year Ended	
	December 31, 2017	January 1, 2017
	(in thousands)	
Contractual interest expense at 2% per annum	\$2,880	\$2,989
Accretion of debt discount	3,149	3,556
Total	\$6,029	\$6,545

The 2% 2020 Spansion Exchangeable Notes consisted of the following as of December 31, 2017 and January 1, 2017 (in Thousands):

	December 31, 2017	January 1, 2017
Equity component (1)	\$42,130	\$287,362
Liability component:		
Principal	\$21,990	\$149,990
Less debt discount and debt issuance costs, net (2)	(1,615)	(14,589)
Net carrying amount	\$20,375	\$135,401

(1) Included in the consolidated balance sheets within additional paid-in-capital

(2) Included in the consolidated balance sheets within Credit facility and long-term debt and is amortized over the remaining life of the 2% 2020 Exchangeable Notes.

Capped Calls, 2% 2020 Spansion Exchangeable Notes

In connection with the Spansion Notes, Spansion had entered into capped call transactions in fiscal 2013 with certain bank counterparties to reduce the potential dilution to their common stock upon exchange of the Spansion Notes. In March 2015, the Company and the counterparties agreed to terminate and unwind the capped calls and the Company received a cash settlement of \$25.3 million which has been the fair value of the capped call assumed as a part of the Merger and recorded as an increase to additional paid-in-capital on the Consolidated Balance Sheet as of January 3, 2016.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

Senior Secured Revolving Credit Facility, Term Loan A, Term Loan B

As per the terms of the Credit Facility, the Company entered into a Joinder Agreement on December 22, 2015 under which the Company borrowed an additional \$100 million (“Term Loan A”). Term Loan A is subject to, at the Company’s option, either an interest rate equal to (i) 3.25% over LIBOR or (ii) an interest rate equal to 2.25% over the greater of (x) the prime lending rate published by the Wall Street Journal, (y) the federal funds effective rate plus 0.50%, and (z) the LIBOR rate for a one month interest period plus 1%. The Company paid a 1.00% upfront fee in connection with the Term Loan A. Such Term Loan A is payable in quarterly installments equal to 1.25% per quarter for 2016, 1.875% per quarter for 2017 and 2018, and 2.50% per quarter thereafter, with the remaining outstanding principle amount due at final maturity on March 12, 2020. It may be voluntarily prepaid at the Company’s option and is subject to mandatory prepayments equal to (i) 50% of excess cash flow, as defined in the agreement, (stepping down to 25% and 0% based on a decrease in total leverage ratio over time) at the end of each fiscal year, (ii) the net cash proceeds from certain asset sales (subject to certain reinvestment rights) and (iii) the proceeds from any debt issuances not otherwise permitted under the Credit Agreement. The Company incurred financing costs of \$2.8 million to the lenders of Term Loan A which have been capitalized and recognized as a deduction of the Term Loan A balance in “Credit facility and long term debt” on the Consolidated Balance Sheet.

On January 6, 2016, subsequent to fiscal 2015, the Company entered into an Incremental Revolving Joinder Agreement to its existing Senior Secured Revolving Credit Facility to increase the amount of revolving commitments under the Credit Facility by an additional \$90 million. The total aggregate amount of revolving commitments under the Credit Facility starting January 6, 2016 is \$540 million.

On April 27, 2016, the Company amended and restated the borrowings under the Senior Secured Revolving Credit Facility bear interest, at the Company’s option, at an adjusted base rate plus a spread of 1.25%, or an adjusted LIBOR rate plus a spread of 2.25%. The borrowings under the Senior Secured Revolving Credit Facility are guaranteed by certain present and future wholly-owned material domestic subsidiaries of the Company (the “Guarantors”) and are secured by a security interest in substantially all assets of the Company and the Guarantors. The financial covenants include the following conditions: 1) maximum total leverage ratio of 4.50 × through October 2016, 4.25 × until January 1, 2017, 4.00 × until April 2, 2017 and 3.75 × thereafter, and 2) minimum fixed charge coverage ratio of 1.00 x. The Company incurred financing costs of \$2.6 million related to the Senior Secured Revolving Credit Facility which has been capitalized and recognized in other long-term assets on the Consolidated Balance Sheet. These costs will be amortized over the life of the Senior Secured Revolving Credit Facility and recorded in “Interest Expense” in the Consolidated Statement of Operations.

On July 5, 2016, the Company entered into a Joinder and Amendment Agreement with the guarantors’ party thereto, the initial incremental term loan lenders party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent. The Joinder Agreement supplements the Company’s existing Amended and Restated Credit and Guaranty Agreement, dated as of March 12, 2015, by and among the Company, the guarantors, the lenders, the Agent, and Morgan Stanley Bank, N.A., as issuing bank and others.

The Joinder and Amendment Agreement provides for the incurrence by the Company of an incremental term loan in an aggregate principal amount of \$450.0 million (“Term Loan B”). The

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

incurrence of Term Loan B is permitted as an incremental loan under the Credit Agreement and is subject to the terms of the Credit Agreement and to additional terms set forth in the Joinder and Amendment Agreement. Term Loan B will initially bear interest at (i) an adjusted LIBOR rate loan plus an applicable margin of 5.50% or (ii) an adjusted base rate loan plus an applicable margin of 4.50%. Following the delivery of the Compliance Certificate and the financial statements for the period ending the last day of the third Fiscal Quarter of 2016, Term Loan B shall bear interest, at the Company's option, at (i) an adjusted LIBOR rate plus an applicable margin of either 5.25% or 5.50%, or (ii) an adjusted base plus an applicable margin of either 4.25% or 4.50%, with the applicable margin in each case determined based on the Company's total net leverage ratio for the trailing twelve month period ended as of the last day of the Company's most recently ended fiscal quarter. The Company paid an upfront fee to the initial incremental lenders in an amount equal to 1.5% of the aggregate principal amount of the Incremental Term Loan funded. The Company is required to pay a prepayment premium of 1% of the principal amount prepaid if it prepays the Incremental Term Loan in certain circumstances prior to the date that is twelve months after the Closing Date. Term Loan B was fully funded on the Closing Date and matures on July 5, 2021. The Company incurred financing costs of \$11.5 million to the lenders of Term Loan B which has been capitalized and recognized as a deduction of the Term Loan B balance in "Long-term revolving credit facility and long term debt" on the Consolidated Balance Sheet. These costs will be amortized over the life of Term Loan B and recorded in "Interest Expense" in the Consolidated Statement of Operations.

On February 17, 2017, the Company amended its Credit Facility. The amendment reduced the applicable margins on the Term Loan B and Term Loan A from 5.50% and 5.11%, respectively, to 3.75% effective February 17, 2017. Additionally, the amended financial covenants include the following conditions: 1) maximum total leverage ratio of 4.25 to 1.00 through December 31, 2017 and 2) maximum total leverage ratio of 4.00 to 1.00 through July 1, 2018 and 3.75 to 1.00 thereafter. The Company incurred financing costs of \$5.9 million to lenders of the Term Loans which were capitalized and recognized as a reduction of the Term Loan A and Term Loan B balances in "Credit facility and long term debt" on the Consolidated Balance Sheet. These costs will be amortized over the life of the Term Loans and are recorded in "Interest Expense" on the Consolidated Statements of Operations.

On April 7, 2017, the Company amended its Credit Facility. The amendment reduced the applicable margins on the Company's Term Loan A from 3.75% to 2.75% effective April 7, 2017. The Company incurred financing costs of \$0.4 million to lenders of Term Loan A which were recognized as a reduction of the Term Loan A balance in "Long-term credit facility and long term debt" on the Consolidated Balance Sheet.

On August 18, 2017, the Company amended its Credit Facility. As a result of the amendment, Term Loan A borrowing of \$91.3 million was extinguished as a separate borrowing. Term Loan B was increased by \$91.3 million to replace Term Loan A (the "Additional Incremental Term Loan"). Previously unamortized debt issuance costs of \$3.0 million related to Term Loan A were written off and recorded as "Interest expense" in the Consolidated Statements of Operations in fiscal 2017. The additional incremental term loan is subject to the terms of the Credit Agreement and the additional terms set forth in the amendment. The amendment also reduced the applicable margins on Term Loan B from 3.75% to 2.75% effective August 18, 2017. The Company incurred financing costs of \$0.6 million to the lenders of the Term Loans which have been capitalized and recognized as a reduction of the Term Loan B balances in "Credit facility and long term debt" on the Consolidated

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 14. DEBT (Continued)

Balance Sheet. These costs will be amortized over the life of the Term Loans and are recorded in “Interest Expense” on the Consolidated Statements of Operations.

As of December 31, 2017, \$601.9 million aggregate principal amount of loan, which is related to Term Loan B, is outstanding under the Credit Facility.

As of December 31, 2017, the Company was in compliance with all of the financial covenants under the Credit Facility.

Capital Leases and Equipment Loans

In 2011, the Company entered into capital lease agreements which allowed it to borrow up to \$35.0 million to finance the acquisition of certain manufacturing equipment. Assets purchased under all capital leases are included in “Property, plant and equipment, net” on the Company’s Consolidated Balance Sheet.

During the year ended January 1, 2017, the Company purchased previously leased manufacturing equipment having gross value and net book value of \$18.8 million and \$9.4 million, respectively. As at December 31, 2017, there are no balances outstanding under these capital leases.

In December 2011, the Company obtained equipment loans from a certain financial institution for an aggregate amount of \$14.1 million. As of December 31, 2017, there are no balances outstanding under these equipment leases.

Future Debt Payments

The future scheduled principal payments for the outstanding Company’s debt as of December 31, 2017 were as follows:

<u>Fiscal Year</u>	<u>Total</u>
2018	\$ 27,303
2019	30,715
2020	152,944
2021	412,952
2022 and beyond	437,500
Total	<u>\$1,061,414</u>

NOTE 15. EQUITY TRANSACTIONS

\$450 million Stock Buyback Program:

On October 20, 2015, the Company’s Board authorized a \$450 million stock buyback program. The program allows the Company to purchase its 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 the Company’s common stock, regulatory, legal, and contractual requirements, alternative uses of cash, availability of on shore cash and other market factors. The program does not obligate the Company to repurchase any particular amount of common stock and may be modified or suspended at any time at the Company’s discretion.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. EQUITY TRANSACTIONS (Continued)

Under the program through the end of fiscal 2017, the Company used \$239.2 million to repurchase 29.5 million shares at an average price of \$8.11.

Yield Enhancement Program:

In fiscal 2009, the Audit Committee approved a yield enhancement strategy intended to improve the yield on the Company's available cash. As part of this program, the Audit Committee authorized the Company to enter into short-term yield enhanced structured agreements, typically with maturities of 90 days or less, correlated to the Company's stock price. Under the agreements, the Company entered into to date, it pays 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 the Company's common stock depending on the closing market price of the Company's common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of the Company's common stock is above the pre-determined price, the Company will have its 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, the Company will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on the Company's stock price and does not require the Company to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

The Company had no activity related to yield enhanced structured agreements during fiscal 2016 and 2017. The following table summarizes the activity of the Company's settled yield enhanced structured agreements during fiscal 2015:

<u>Periods</u>	<u>Aggregate Price Paid</u>	<u>Total Cash Proceeds Received Upon Maturity</u> (in thousands)	<u>Cash Yield Realized</u>	<u>Total Number of Shares Received Upon Maturity</u>	<u>Average Price Paid per Share</u>
Fiscal 2015:					
Settled through cash proceeds	\$28,966	\$29,353	\$387	—	\$ —
Settled through issuance of common stock	<u>9,601</u>	<u>—</u>	<u>—</u>	<u>1,000,000</u>	<u>9.6</u>
Total for fiscal 2015	<u>\$38,567</u>	<u>\$29,353</u>	<u>\$387</u>	<u>1,000,000</u>	<u>\$9.6</u>

Dividends

During fiscal 2017, the Company paid total cash dividends of \$144.7 million consisting of dividends of \$0.11 per share of common stock paid in all four quarters of the fiscal year. On November 7, 2017, the Company's Board declared a cash dividend of \$0.11 per share payable to holders of record of the Company's common stock at the close of business day on December 28, 2017. This cash dividend was paid on January 18, 2018 and totaled \$38.7 million.

During fiscal 2016, the Company paid total cash dividends of \$141.4 million, consisting of dividends of \$0.11 per share of common stock paid in all four quarters of the fiscal year.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. EQUITY TRANSACTIONS (Continued)

During fiscal 2015, the Company paid total cash dividends of \$128.0 million, consisting of dividends of \$0.11 per share of common stock paid in all four quarters of the fiscal year.

NOTE 16. RELATED PARTY TRANSACTIONS

During fiscal years 2017, 2016 or 2015, in the ordinary course of business, the Company purchased from, or sold to, several entities, for which one of its directors or executive officers also serves or served as a director or entities that are otherwise affiliated with one of the Company's directors or executive officers.

The following table provides the transactions with these parties for the indicated periods for the time period such parties were a related party of the Company:

	Year ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(in thousands)		
Total revenues	\$ 4,713	\$2,965	\$1,684
Total purchases	\$54,236	\$7,936	\$3,963

As of December 31, 2017 and January 1, 2017, total receivable balances with these parties totaled \$4.8 million and \$6.9 million, respectively, and total payable balances with these parties totaled \$9.9 million and \$0.2 million, respectively.

NOTE 17. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average common shares outstanding during the period. 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. This computation excludes all dilutive potential common shares when the Company is in a net loss position as their inclusion would be anti-dilutive. The Company's dilutive securities primarily include stock options, restricted stock units, restricted stock awards, and the exchangeable notes.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17. NET INCOME (LOSS) PER SHARE (Continued)

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

	<u>Year Ended</u>		
	<u>December 31, 2017</u>	<u>January 1, 2017</u>	<u>January 3, 2016</u>
	(in thousands, except per-share amounts)		
Net Income (Loss) per Share—Basic:			
Net (loss) attributable to Cypress for basic and diluted computation	\$ (80,915)	\$(683,234)	\$(365,292)
Weighted-average common shares for basic computation	333,451	319,522	302,036
Net (loss) per share—basic	\$ (0.24)	\$ (2.14)	\$ (1.21)
Net (Loss) per Share—Diluted:			
Net income (loss) attributable to Cypress for diluted computation	\$ (80,915)	\$(683,234)	\$(365,292)
Weighted-average common shares for basic computation	333,451	319,522	302,036
Effect of dilutive securities:			
Stock options, restricted stock units, restricted stock awards and other	—	—	—
Weighted-average common shares for diluted computation	333,451	319,522	302,036
Net income (loss) per share—diluted	\$ (0.24)	\$ (2.14)	\$ (1.21)

Anti-Dilutive Securities:

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

	<u>Year Ended</u>		
	<u>December 31, 2017</u>	<u>January 1, 2017</u>	<u>January 3, 2016</u>
	(in thousands)		
Stock options, restricted stock units and restricted stock awards	8,375	6,226	11,316
Exchangeable Notes	17,732	13,844	15,210

NOTE 18. EMPLOYEE BENEFIT PLANS

Pension Plans

The Company sponsors defined benefit pension plans covering employees in certain of its international locations. The Company does not have defined-benefit pension plans for its 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.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. EMPLOYEE BENEFIT PLANS (Continued)

As of December 31, 2017 and January 1, 2017, projected benefit obligations totaled \$10.7 million and \$9.7 million, respectively, and the fair value of plan assets was \$3.3 million and \$3.2 million, respectively.

Spansion Innovates Group Cash Balance Plan (Defined Benefit Plan)

In connection with the Merger, the Company assumed the Spansion Innovates Group Cash Balance Plan (a defined benefit pension plan) in Japan. Defined benefit pension plans are accounted for on an actuarial basis, which requires the selection of various assumptions such as turnover rates, discount rates and other factors. The discount rate assumption is determined by comparing the projected benefit payments to the Japanese corporate bonds yield curve as of end of the fiscal year. The benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement. This liability is recorded in other long term liabilities on the Consolidated Balance Sheets. Net periodic pension cost is recorded in the Consolidated Statements of Operations and includes service cost. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money associated with the passage of time on the PBO. Gains or losses resulting from a change in the PBO if actual results differ from actuarial assumptions will be accumulated and amortized over the future life of the plan participants if they exceed 10% of the PBO, being the corridor amount. If the amount of a net gain or loss does not exceed the corridor amount, they will be recorded in other comprehensive income.

Also in connection with the assumption of this pension plan liability, the Company assumed the restricted cash balance, which relates to the underfunded portion of the pension liability. The pension liability was paid out in fiscal 2017 in annual installments according to the employee's election.

The plan is unfunded as of December 31, 2017. This status is not indicative of the Company's ability to pay ongoing pension benefits. The Company recorded a net periodic cost of \$0.7 million and \$1.1 million for the year ended December 31, 2017 and January 1, 2017, respectively. The Company has accrued a liability of \$2.3 million and \$1.9 million as of December 31, 2017 and January 1, 2017, respectively, which has been recorded in other long term liabilities on the Consolidated Balance Sheet. The Company expects to contribute an immaterial amount towards the Cash Balance Plan for fiscal 2017.

Cypress Incentive Plan

The Company has an employee incentive plan, which provides for cash incentive payments to certain employees including all named executive officers. Payments under the plan are determined based up on certain performance measures, including the Company's Non-GAAP actual revenue and EPS as well as the achievement of strategic, operational and financial goals established for the company and for each employee. The Company recorded total charges of approximately \$61.0 million under the plan in fiscal 2017.

Deferred Compensation Plans

The Company has deferred compensation plans, which provides certain key employees, including its executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-deferred basis. The Company does not make contributions to the

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. EMPLOYEE BENEFIT PLANS (Continued)

deferred compensation plans or guarantee returns on the investments. Participant deferrals and investment gains and losses remain the Company's assets and are subject to claims of general creditors.

Under the deferred compensation plans 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 December 31, 2017 and January 1, 2017, the fair value of the assets was \$49.5 million and \$45.6 million, respectively, and the fair value of the liabilities was \$50.6 million and \$46.4 million, respectively.

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

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(in thousands)		
Changes in fair value of assets recorded in:			
Other income (expense), net	\$ 6,087	\$ 2,326	\$(1,353)
Changes in fair value of liabilities recorded in:			
Cost of revenues	(602)	(288)	38
Research and development expenses	(2,826)	(884)	233
Selling, general and administrative expenses	(3,936)	(1,889)	260
Total income (expense), net	\$(1,277)	\$ (735)	\$ (822)

401(k) Plan

The Company sponsors a 401(k) plan which provides participating employees with an opportunity to accumulate funds for retirement on a tax deferred basis. As of December 31, 2017, the Company did not make contributions to the 401(k) plan and all employee contributions are fully vested. Effective January 1, 2018, Cypress has initiated an employer matching contribution equal to 50% of the first \$2,000 that the employees contribute to the Plan for both pre-tax and Roth deferrals.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. INCOME TAXES

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

	Year Ended		
	<u>December 31, 2017</u>	<u>January 1, 2017</u>	<u>January 3, 2016</u>
	(In thousands)		
United States loss	\$(108,146)	\$(786,610)	\$(460,168)
Foreign income	38,388	105,992	111,836
Income (loss) before income taxes . .	<u>(69,758)</u>	<u>(680,618)</u>	<u>(348,332)</u>
Income tax benefit (provision):			
Current tax benefit (expense):			
Federal	(1,358)	(1,144)	219
State	(125)	204	55
Foreign	<u>(15,081)</u>	<u>(926)</u>	<u>(17,189)</u>
Total current tax benefit (expense)	<u>(16,564)</u>	<u>(1,866)</u>	<u>(16,915)</u>
Deferred tax benefit (expense):			
Federal	4,341	(556)	(610)
State	(67)	(31)	(155)
Foreign	<u>1,133</u>	<u>(163)</u>	<u>720</u>
Total deferred tax benefit (expense)	<u>5,407</u>	<u>(750)</u>	<u>(45)</u>
Income tax benefit (provision)	<u>\$ (11,157)</u>	<u>\$ (2,616)</u>	<u>\$ (16,960)</u>

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		
	<u>December 31, 2017</u>	<u>January 1, 2017</u>	<u>January 3, 2016</u>
	(In thousands)		
Benefit (provision) at U.S. statutory rate of 35%	\$ 24,415	\$ 238,216	\$ 121,916
Foreign income at other than U.S. rates	(67,685)	(36,552)	(22,385)
Future benefits not recognized	29,762	(29,207)	(121,300)
Goodwill impairment	—	(181,987)	—
Reversal of previously accrued taxes	1,447	13,371	10,939
Tax impact of acquisitions	—	—	(6,457)
Foreign withholding taxes	(3,718)	(2,018)	(243)
State income taxes, net of federal benefit	(192)	(87)	(138)
Tax credit refund	5,637	—	—
Other, net	<u>(823)</u>	<u>(4,352)</u>	<u>708</u>
Income tax benefit (provision)	<u>\$ (11,157)</u>	<u>\$ (2,616)</u>	<u>\$ (16,960)</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. INCOME TAXES (Continued)

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

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
Deferred tax assets:		
Credits and net operating loss carryovers	\$ 460,329	\$ 496,448
Reserves and accruals	92,655	120,453
Excess of book over tax depreciation	11,744	35,886
Deferred income	39,367	26,457
Total deferred tax assets	604,095	679,244
Less valuation allowance	(513,191)	(445,030)
Deferred tax assets, net	90,904	234,214
Deferred tax liabilities:		
Foreign earnings and others	(68,013)	(163,914)
Intangible assets arising from acquisitions	(24,477)	(71,960)
Total deferred tax liabilities	(92,490)	(235,874)
Net deferred tax assets	\$ (1,586)	\$ (1,660)

The Company has the following tax loss and credit carryforwards available to offset future income tax liabilities:

Carryforward	Amount	Expiration Date
	(\$ in millions)	
Federal net operating loss carryforward	\$1,195	2022 - 2037
Federal research credit carryforward	\$ 118	2018 - 2037
International foreign tax credit carryforward	\$ 8	2018 - 2023
State research credit carryforward	\$ 97	Indefinite
State net operating loss carryforward	\$ 434	2018 - 2036

The federal and state net operating loss carryforward is subject to limitations under Internal Revenue Code Section 382.

As of December 31, 2017, of the total deferred tax assets of \$604.1 million, a valuation allowance of \$513.2 million has been recorded for the portion that is not more likely than not to be realized. As of January 1, 2017, of the total deferred tax assets of \$679.2 million, a valuation allowance of \$445.0 million has been recorded for the portion which is not more likely than not to be realized. The Company's determination of the need for a valuation allowance each year is based on a jurisdictional assessment.

The Company's global operations involve manufacturing, research and development, and selling activities. The Company's operations outside the U.S. are in certain countries that impose a statutory tax rate lower than the U.S. The Company is subject to tax holidays in Malaysia and Thailand where it manufactures and designs certain products. These tax holidays are scheduled to expire at varying times within the next five years. The Company's tax benefit of these tax holidays for the year ended December 31, 2017 had an insignificant impact on earnings per share. Overall, the Company expects its foreign earnings to be taxed at rates lower than the statutory tax rate in the U.S.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. INCOME TAXES (Continued)

Unrecognized Tax Benefits

The following table is a reconciliation of unrecognized tax benefits:

	<u>(In thousands)</u>
Unrecognized tax benefits, as of December 28, 2014	\$ 11,607
Decrease related to settlements with taxing authorities	(838)
Decrease related to lapsing of statute of limitation	(818)
Decrease based on tax positions related to prior year	(10,272)
Increase based on tax positions related to current year	6,487
Increases in balances related to tax positions taken during prior periods (including those related to acquisitions made during the year)	<u>108,677</u>
Unrecognized tax benefits, as of January 3, 2016	<u>\$114,843</u>
Decrease related to lapsing of statute of limitation	(7,190)
Decrease based on tax positions related to prior year	—
Increase based on tax positions related to current year	5,639
Increases in balances related to tax positions taken during prior periods	<u>33,032</u>
Unrecognized tax benefits, as of January 1, 2017	<u>\$146,324</u>
Decrease related to lapsing of statute of limitation	(1,108)
Decrease based on tax positions related to prior year	—
Increase based on tax positions related to current year	4,475
Increases in balances related to tax positions taken during prior periods	1,631
Decrease in balances due to the Tax Reform corporate tax rate change from 35% to 21%	<u>(36,087)</u>
Unrecognized tax benefits, as of December 31, 2017	<u><u>\$115,235</u></u>

Gross unrecognized tax benefits decreased by \$31.1 million during fiscal year 2017, resulting in gross unrecognized tax benefits of \$115.2 million as of December 31, 2017.

During fiscal year 2017, the Company recognized \$1.1 million of previously unrecognized tax benefits as a result of either the expiration of the statute of limitations for certain audit periods or settlement with taxing authorities.

The Company recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes line in the accompanying consolidated statements of operations. The Company recognized approximately \$2.2 million of benefit related to interest and penalties in fiscal year 2017. Accrued interest and penalties are included within other long-term liabilities in the consolidated balance sheets. As of December 31, 2017 and January 1, 2017, the combined amount of cumulative accrued interest and penalties was approximately \$11.0 million and \$8.5 million, respectively.

As of December 31, 2017 and January 1, 2017, the amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate totaled \$28.9 million and \$24.3 million, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. INCOME TAXES (Continued)

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 statute of limitations on the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. The Company regularly assesses its tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which it does business. The Company believes it is reasonably possible that it may recognize up to approximately \$0.2 million of its 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

The Company's policy is to classify interest expense and penalties, if any, as components of income tax provision in the Consolidated Statements of Operations. As of December 31, 2017 and January 1, 2017, the amount of accrued interest and penalties totaled \$11.0 million and \$8.5 million, respectively. The Company recorded a charge or (benefit) from interest and penalties of \$2.2 million, (\$3.4) million and \$9.1 million during fiscal 2017, 2016 and 2015, respectively.

Tax Examinations

The following table summarizes the Company's major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of December 31, 2017:

<u>Tax Jurisdictions</u>	<u>Tax Years</u>
United States	2010 and onward
Philippines	2014 and onward
Israel	2014 and onward
India	2004 and onward
Thailand	2011 and onward
Malaysia	2007 and onward
Switzerland	2008 and onward
California	2011 and onward
Japan	2010 and onward

Income tax examinations of the Company's Malaysian subsidiary for the fiscal years 2007 to 2013 and our Philippine subsidiary for fiscal year 2014 are in progress. The Company does not believe the ultimate outcome of these examinations will result in a material increase to its tax liability.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code effective for tax years beginning after December 31, 2017. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21%, the repeal of corporate AMT, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. INCOME TAXES (Continued)

foreign earnings as of December 31, 2017. The Company has calculated a reasonable estimate of the impact of the Act in its year end income tax provision in accordance with its understanding of the Act and guidance available as of the date of the issuance of the consolidated financial statements. As a result of the reduction in the corporate income tax rate, the Company revalued its net deferred tax assets at December 31, 2017, which resulted in a provisional decrease of deferred tax balance and corresponding valuation allowance balance of \$158.7 million. The provisional amount related to the remeasurement of certain deferred tax liabilities, based on the rates at which it is expected to reverse in the future, resulted in a tax benefit of \$3.0 million. The provisional amount related to the repeal of corporate AMT was a tax benefit of \$5.6 million as the prior year AMT credit will be refunded over 2018 - 2021. Based on the Act and guidance available as of the date of the issuance of the consolidated financial statements, the Company determined a provisional estimate of the impact of the one-time transition tax on the mandatory deemed repatriation of accumulative foreign subsidiary earnings. The Company estimates that the transition tax will result in the utilization of \$46.0 million of net operating loss carryforwards against which the Company maintains a corresponding valuation allowance.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company has determined that there is no additional current tax expense required to be recorded in connection with the transition tax on the mandatory deemed repatriation of net cumulative foreign earnings and a reasonable estimate at December 31, 2017 as the Company believes it has sufficient tax attributes such as net operating loss and tax credits to offset any tax imposed on this income. Additional work is necessary for a more detailed analysis of the Company’s historical foreign earnings as well as potential correlative adjustments.

Any subsequent adjustment to these amounts will be recorded to current tax expense upon completion of the analysis during the subsequent quarters of 2018.

United States income taxes and foreign withholding taxes have not been provided on a cumulative total of \$361.3 million of undistributed earnings for non-United States subsidiaries as of December 31, 2017, because such earnings are intended to be indefinitely reinvested. The Company did not record a provision for additional United States income taxes caused by the one-time transition tax on the mandatory deemed repatriation of accumulative foreign subsidiary earnings as the Company has sufficient net operating loss carryforwards to offset the income. Withholding taxes associated with these undistributed earnings are not significant.

The Company intends to continue maintaining a full valuation allowance on its deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. However, considering the Company’s current assessment of the probability of maintaining profitability, there is a reasonable possibility that, within the next year, sufficient positive evidence may become available to reach a conclusion that a significant portion, or all, of the valuation allowance will no longer be needed. As such, the Company may release a significant portion, or all, of its valuation allowance against its deferred tax assets within the next 12 months. This release, if any, would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period such release is recorded.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. COMMITMENTS AND CONTINGENCIES

Product Warranties

The Company warrants its 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. The Company estimates 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 warranty reserve activities:

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Beginning balance	\$ 3,996	\$ 4,096	\$ 2,370
Warranties assumed as part of the Spansion merger	—	—	1,254
Provisions & prior warranty estimates	2,947	5,261	2,820
Settlements made	(2,498)	(5,361)	(2,348)
Ending balance	<u>\$ 4,445</u>	<u>\$ 3,996</u>	<u>\$ 4,096</u>

Patent License Agreement

In December 2015, the Company entered into a strategic Patent License Agreement (“Agreement”) with Round Rock LLC (“Round Rock”) under which the Company and its majority-owned subsidiaries received a license to Round Rock’s substantial patent portfolio. This transaction allowed the Company and Round Rock to continue to develop its strategic relationship regarding patent monetization and litigation defense. Under the terms of the Agreement, the Company paid a license fee of \$6.0 million. One of the benefits that the Company received from the Agreement was the avoidance of future litigation expenses as well as future customer disruption and based upon its analysis, it determined that a portion of the license fee that the Company will pay Round Rock represents the cumulative cost relating to prior years. Consequently, the Company has recorded \$2.2 million charge to cost of revenues in fiscal 2015. During fiscal 2017 and 2016, the Company has recorded \$0.8 million, respectively, as part of cost of revenues related to this arrangement.

On April 30, 2012, the Company entered into a strategic Patent License Agreement (“PLA”) with IV Global Licensing LLC (“IV”) under which the Company and its majority-owned subsidiaries received a license to IV’s substantial patent portfolio. This transaction allowed the Company and IV to continue to develop their strategic relationship regarding patent monetization and litigation defense. Under the terms of the PLA, the Company paid a license fee of \$14.0 million and to purchase certain litigation defense services from IV in the future. In addition, in a related agreement, IV is expected to make certain patent purchases from the Company in the near term. The exact terms and conditions of the PLA are subject to confidentiality provisions, and are the subject of an application for confidential treatment to be filed with the SEC. In June 2015, the Company paid an additional license fee of \$18.5 million under the existing license agreement due to the merger with Spansion in March 2015.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. COMMITMENTS AND CONTINGENCIES (Continued)

One of the benefits that the Company received from the PLA was the avoidance of future litigation expenses as well as future customer disruption and based upon the Company's analysis, using a relief from royalty method, the Company determined that a portion of the license fee that it will pay IV represents the cumulative cost relating to prior years. As such, the Company recorded, \$7.1 million which was recorded as a charge to cost of revenues in fiscal 2012. The Company originally capitalized \$6.9 million on the Consolidated Balance Sheet and an additional 18.5 million due to the acquisition of Spansion as discussed above and also paid \$5.8 million in 2016 remaining from the original agreement. The Company is amortizing such costs over the remaining life of the patent portfolio. Amortization expense was \$4.5 million, \$5.9 million and \$4.4 million in fiscal years December 31, 2017, January 1, 2017 and January 3, 2016, respectively. The remaining capitalized balance of the PLA is \$12.4 million and \$18.6 million as of December 31, 2017 and January 1, 2017, respectively. Of such capitalized balance, \$6.4 million and \$6.4 million is in current assets, and \$6.0 million and \$12.2 million in long-term assets on the Consolidated Balance Sheet as of December 31, 2017 and January 1, 2017, respectively.

Operating Lease Commitments

The Company leases certain facilities and equipment under non-cancelable operating lease agreements that expire at various dates through fiscal 2026. Some leases include renewal options, which would permit extensions of the expiration dates at rates approximating fair market rental values.

As of December 31, 2017, future minimum lease payments under non-cancelable operating leases were as follows:

<u>Fiscal Year</u>	<u>(In thousands)</u>
2018	\$15,258
2019	11,854
2020	9,910
2021	6,685
2022	5,621
2023 and Thereafter	17,064
Total	<u>\$66,392</u>

Rental expenses totaled \$20.0 million, \$15.0 million and \$17.1 million in fiscal 2017, 2016 and 2015, respectively.

Restructuring accrual balances related to operating facility leases were \$11.5 million and \$14.2 million as of December 31, 2017 and January 1, 2017, respectively.

Contractual Obligations

The Company has entered into agreements with certain vendors that include "take or pay" terms. Take or pay terms obligate the Company to purchase a minimum required amount or services or make specified payments in lieu of such purchase. The Company may not be able to consume minimum commitments under these take or pay terms, requiring payments to vendors, which may have a material adverse impact on the Company's earnings.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation and Asserted Claims

In August 15, 2016, a patent infringement lawsuit was filed by the California Institute of Technology (“Caltech”) against the Company in the U.S. District Court for the Central District of California (Case No. 16-cv-03714). The other co-defendants are Apple Inc., Avago Technologies Limited, Broadcom Corporation, and Broadcom Limited. Caltech alleges that defendants infringe four patents. On July 12, 2017, the Court issued a claim construction order. Trial will not occur until at least the third quarter of 2018, and the Company will defend against the allegations accordingly. Due to the current stage of the proceedings, the Company cannot reasonably estimate the loss or the range of possible losses, if any.

In January 2017, matters related to two putative class action complaints filed in Santa Clara County Superior Court (*Walter Jeter v. Spansion Inc.*, et. al. (No.114cv274635) and *S hiva Y. Stein v. Spansion Inc.*, et. al. (No. 114CV274924)), were closed without materially adverse financial consequences for the Company.

On January 30, 2017, T.J. Rodgers, the former Chief Executive Officer and director of the Company, filed a complaint in the Delaware Court of Chancery captioned *Rodgers v. Cypress Semiconductor Corp.*, C.A. No. 2017-0070-AGB (Del. Ch.), seeking to inspect certain Company books and records pursuant to Section 220 of the Delaware General Corporation Law. On April 17, 2017, the Court ruled that Mr. Rodgers was entitled to certain books and records, which were provided by the Company to Mr. Rodgers.

On April 24, 2017, Mr. Rodgers filed a second lawsuit in the Delaware Court of Chancery (C.A. No. 2017-0314-AGB), naming the Company’s directors as defendants and alleging breach of the fiduciary duty of candor. The parties subsequently entered into a settlement agreement, with an effective date of June 30, 2017, to resolve and dismiss with prejudice all ongoing litigation and claims relating to the subject matter of the Section 220 and breach of fiduciary duty actions. On July 26, 2017, the litigations were dismissed with prejudice. This matter was closed without materially adverse financial consequences for the Company.

During fiscal 2017, matters related to North Star Innovations, Inc. (U.S. District Court for the District of Delaware, Case No. 16-cv-368 and U.S. District Court for the Central District of California, Case No. 16-cv-01721), Kingston Technology Corporation (Trademark Trial and Appeal Board Proceeding Nos. 91218100, 91222728, and 92061796), and Standard Communications Pty Ltd. (Supreme Court of New South Wales, Case No. 2016/263578-002), were closed without materially adverse financial consequences for the Company.

In January 2018, matters related to a grievance filed by a former employee (United States Court of Appeals for the Tenth Circuit, Case No. 16-9523 and District Court for El Paso County, Colorado, Case No. 2015-cv-30632), were closed without materially adverse financial consequences for the Company.

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. COMMITMENTS AND CONTINGENCIES (Continued)

Indemnification Obligations

The Company is a party to a variety of agreements pursuant to which it may be obligated to indemnify other parties to such agreements with respect to certain matters. Typically, these obligations arise in the context of contracts that the Company has entered into, under which the Company customarily agrees 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 its products, title to assets sold, certain intellectual property claims, defective products, specified environmental matters and certain income taxes. In these circumstances, payment by the Company is customarily conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims and vigorously defend itself and the third party against such claims. Further, the Company's obligations under these agreements may be limited in terms of time, amount or the scope of its responsibility and in some instances, the Company 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 the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments the Company has made under these agreements have not had a material effect on the Company's business, financial condition or results of operations. Management believes that if the Company were to incur a loss in any of these matters, such loss would not have a material effect on its business, financial condition, cash flows or results of operations, although there can be no assurance of this. As of December 31, 2017, the Company had no reason to believe a loss exceeding amounts already recognized had been incurred.

NOTE 21. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

The Company designs, develops, manufactures and markets a broad range of high-performance solutions for embedded systems, from automotive, industrial and networking platforms to interactive consumer devices

Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker ("CODM") is considered to be the Chief Executive Officer.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION (Continued)

The following tables set forth certain information relating to the reportable business segments:

Revenues:

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Microcontroller and Connectivity Division (“MCD”) . .	\$1,409,265	\$ 994,482	\$ 731,279
Memory Products Division (“MPD”)	918,506	928,626	876,574
Total revenues	<u>\$2,327,771</u>	<u>\$1,923,108</u>	<u>\$1,607,853</u>

Income (Loss) from Operations before Income Taxes:

	Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
Microcontroller and Connectivity Division	\$ 56,314	\$ (12,674)	\$ (67,572)
Memory Products Division	279,129	192,066	83,054
Unallocated items:			
Stock-based compensation expense	(91,581)	(98,513)	(83,690)
Restructuring (charges) benefit, including executive severance	(9,088)	(30,631)	(90,084)
Reimbursement payment in connection with the cooperation and settlement agreement	(3,500)	—	—
Amortization of intangibles and other acquisition- related costs	(204,448)	(210,513)	(143,487)
Impairment of assets and other	—	(33,944)	—
Impairment related to assets held for sale	—	(37,219)	—
Loss on extinguishment of debt	(7,246)	—	—
Gain on divestiture	1,245	—	66,472
Changes in value of deferred compensation plan . .	(1,277)	(735)	(820)
Gain related to investment in Deca Technologies Inc.	—	112,774	—
Goodwill impairment charge	—	(488,504)	—
Impact of purchase accounting and other	(17,402)	(55,724)	(107,328)
Income (loss) from operations before income taxes . .	<u>\$ 2,146</u>	<u>\$(663,617)</u>	<u>\$(343,455)</u>

The Company does not allocate goodwill and intangible assets impairment charges, impact of purchase accounting, IPR&D, severance and retention costs, settlement agreements, acquisition-related costs, stock-based compensation, interest income and other, and interest expense to its segments. In addition, the Company does not allocate assets to its segments. The Company excludes these items consistent with the manner in which it internally evaluates its results of operations.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 21. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION (Continued)

Geographical Information

The following table presents revenues by geographical locations

	For The Year Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
	(In thousands)		
United States	\$ 220,128	\$ 199,294	\$ 199,527
Europe	291,948	255,604	208,525
Greater China (includes China, Taiwan and Hong Kong)	980,670	819,200	525,274
Japan	515,622	420,869	464,673
Rest of the World	319,403	228,141	209,854
Total revenue	<u>\$2,327,771</u>	<u>\$1,923,108</u>	<u>\$1,607,853</u>

Property, plant and equipment, net, by geographic locations were as follows:

	As of	
	December 31, 2017	January 1, 2017
	(In thousands)	
United States	\$186,824	\$189,912
Philippines	36,747	37,790
Thailand	29,151	32,547
Japan	12,211	14,898
Other	24,621	22,119
Total property, plant and equipment, net	<u>\$289,554</u>	<u>\$297,266</u>

The Company tracks its assets by physical location. Although management reviews asset information on a corporate level and allocates depreciation expense by segment, the Company's CODM does not review asset information on a segment basis.

Customer Information

Outstanding accounts receivable from one the Company's distributors, accounted for 28% and 24%, respectively, of Company's consolidated accounts receivable as of December 31, 2017 and January 1, 2017.

Revenue generated through two of Company's distributors, accounted for 20% and 13%, respectively, of Company's consolidated revenues for fiscal 2017.

Revenue generated through one of Company's distributors, accounted for 23% of the Company's consolidated revenues for fiscal 2016.

Revenue generated through two of our distributors accounted for 25% and 10%, respectively, of the Company's consolidated revenues for fiscal 2015.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Cypress Semiconductor Corporation:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Cypress Semiconductor Corporation and its subsidiaries (“the Company”) as of December 31, 2017 and January 1, 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and January 1, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the COSO because a material weakness in internal control over financial reporting related to the calculation of stock-based compensation expense existed as of that date.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 consolidated financial statements, and our opinion regarding the effectiveness of the Company’s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for certain elements of its employee share-based payments as of January 2, 2017.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in management’s report referred to above. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated

financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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 26, 2018

We have served as the Company's auditor since 1982.

UNAUDITED QUARTERLY FINANCIAL DATA

Prior period information included in the tables below has been updated to reflect the impact of the revision. See *Note 1* to the Company's consolidated financial statements for further discussion. The 2017 quarterly revisions will be effected in the 2018 unaudited interim financial statements filings on Form 10-Q.

Fiscal 2017

Revised Consolidated and Condensed Statements of Operations Amounts:	Three Months Ended December 31, 2017(1)(3)	Three Months Ended October 1, 2017		
		As previously reported	Adjustments	As revised
Revenues	\$597,547	\$604,574	\$ —	\$604,574
Gross Margin	\$266,900	\$252,605	\$ 436	\$253,041
Net income (loss)	\$ (34,024)	\$ 11,047	\$1,983	\$ 13,030
Adjust for net loss attributable to non-controlling interest	\$ 12	\$ (14)	\$ —	\$ (14)
Net income (loss) attributable to Cypress	\$ (34,012)	\$ 11,033	\$1,983	\$ 13,016
Net income (loss) per share—basic	\$ (0.10)	\$ 0.03	\$ 0.01	\$ 0.04
Net income (loss) per share—diluted	\$ (0.10)	\$ 0.03	\$ 0.01	\$ 0.04

Revised Consolidated and Condensed Statements of Operations Amounts:	Three Months Ended July 2, 2017(1)(2)			Three Months Ended April 2, 2017(1)		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
Revenues	\$593,776	\$ —	\$593,776	\$531,874	\$ —	\$531,874
Gross Margin	\$236,182	\$ 833	\$237,015	\$199,060	\$1,446	\$200,506
Net income (loss)	\$ (22,838)	\$5,984	\$ (16,854)	\$ (45,718)	2,783	\$ (42,935)
Adjust for net loss attributable to non-controlling interest	\$ (66)	\$ —	\$ (66)	\$ (64)	\$ —	\$ (64)
Net income (loss) attributable to Cypress	\$ (22,904)	\$5,984	\$ (16,920)	\$ (45,782)	\$2,783	\$ (42,999)
Net income (loss) per share—basic	\$ (0.07)	\$ 0.02	\$ (0.05)	\$ (0.14)	\$ —	\$ (0.13)
Net income (loss) per share—diluted	\$ (0.07)	\$ 0.02	\$ (0.05)	\$ (0.14)	\$ —	\$ (0.13)

Fiscal 2016

Revised Consolidated and Condensed Statements of Operations Amounts:	Three Months Ended January 1, 2017(7)(8)(9)			Three Months Ended October 2, 2016(7)(9)		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
Revenues	\$530,172	\$ —	\$530,172	\$523,845	\$ —	\$523,845
Gross Margin	\$201,952	\$1,204	\$203,156	\$198,620	\$7,880	\$206,500
Net income (loss)	\$(72,320)	\$1,512	\$(70,808)	\$ 9,235	\$6,649	\$ 15,884
Adjust for net loss attributable to non-controlling interest . . .	\$ (46)	\$ —	\$ (46)	\$ 176	\$ —	\$ 176
Net income (loss) attributable to Cypress . . .	\$(72,366)	\$1,512	\$(70,854)	\$ 9,411	\$6,649	\$ 16,060
Net income (loss) per share—basic	\$ (0.22)	\$ —	\$ (0.22)	\$ 0.03	\$ 0.02	\$ 0.05
Net income (loss) per share—diluted	\$ (0.22)	\$ —	\$ (0.22)	\$ 0.03	\$ 0.02	\$ 0.05
Revised Consolidated and Condensed Statements of Operations Amounts:	Three Months Ended July 3, 2016(5)(6)(9)			Three Months Ended April 3, 2016(4)(9)		
	As previously reported	Adjustments	As revised	As previously reported	Adjustments	As revised
Revenues	\$ 450,127	\$ —	\$ 450,127	\$ 418,964	\$ —	\$ 418,964
Gross Margin	\$ 158,778	\$(3,522)	\$ 155,256	\$ 125,785	\$(3,128)	\$ 122,657
Net income (loss)	\$(519,655)	\$(2,925)	\$(522,580)	\$(104,154)	\$(2,219)	\$(106,373)
Adjust for net loss attributable to non-controlling interest .	\$ 381	\$ —	\$ 381	\$ 132	\$ —	\$ 132
Net income (loss) attributable to Cypress . .	\$(519,274)	\$(2,925)	\$(522,199)	\$(104,022)	\$(2,219)	\$(106,241)
Net income (loss) per share—basic	\$ (1.65)	\$ (0.01)	\$ (1.66)	\$ (0.32)	\$ (0.01)	\$ (0.33)
Net income (loss) per share—diluted	\$ (1.65)	\$ (0.01)	\$ (1.66)	\$ (0.32)	\$ (0.01)	\$ (0.33)

- (1) During the first, second, and fourth quarters of fiscal 2017, the Company recorded \$2.5 million, \$0.9 million, and \$5.6 million, respectively, of restructuring charges. See *Note 10* of the notes to the consolidated financial statements.
- (2) In the second quarter of fiscal 2017, the Company recorded \$12.0 million of litigation and proxy related expenses in connection with a shareholder related matter.
- (3) During the fourth quarter of fiscal 2017, the Company recorded impairment charge of \$51.2 million related to the investment in Enovix, a privately held company.
- (4) During the first quarter of fiscal 2016, the impact from the change in methodology for recognizing revenue for sales to certain distributors at the time of shipment, was increase in revenue of \$9.4 million, reduction in net loss of \$3.1 million or \$0.01 per basic and diluted share.
- (5) During the second quarter of fiscal 2016, the impact from the change in methodology for recognizing revenue for sales to certain distributors at the time of shipment, was increase in revenue of \$24.2 million, reduction in net loss of \$6.8 million or \$0.02 per basic and diluted share.

- (6) In the second quarter of fiscal 2016, the Company recorded a non-cash goodwill impairment charge of \$488.5 million related to the Company's MCD reporting unit. See *Note 3* of the notes to the consolidated financial statements.
- (7) In the third quarter of fiscal 2016, the Company has changed the method of accounting for its investment in Deca Technologies Inc. ("Deca") from consolidation to the equity method of accounting. The change in the method of accounting resulted in a gain of \$112.8 million. See *Note 6* of the notes to the consolidated financial statements. In the third and fourth quarter of fiscal 2016, the Company recorded \$1.5 million and \$6.7 million, respectively, in share in net loss of equity method investee relating to Deca.
- (8) During the fourth quarter of fiscal 2016, the impact from the change in methodology for recognizing revenue for sales to certain distributors at the time of shipment was an increase in revenue of \$12.6 million and a reduction in net loss of \$2.2 million, or \$0.01 per basic and diluted share.
- (9) During the first, second, third and fourth quarters of fiscal 2016, the Company recorded \$0.3 million, \$0.7 million \$8 million, and \$17.2 million, respectively, of restructuring charges. See *Note 10* of the notes to the consolidated financial statements.

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our 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”) as of December 31, 2017. 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. In addition, the design of any disclosure controls and procedures 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 concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as a result of the material weakness related to stock-based compensation described in Management’s Report on Internal Control over Financial Reporting below.

Notwithstanding the identified material weakness, management, including our Chief Executive Officer and Chief Financial Officer, believes the consolidated financial statements included in this annual report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

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. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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 December 31, 2017. 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 (2013)*. Based on our assessment using these criteria listed above, our management concluded that our internal control over financial reporting was not effective as of December 31, 2017, due to the existence of a material weakness related to the calculation of stock-based compensation expense. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements could occur but will not be prevented or detected on a timely basis.

The material weakness identified by management was due to internal controls not being designed at a precision level sufficient to detect errors in certain assumptions and calculations used in the determination of non-cash stock-based compensation primarily relating to the Employee Share

Purchase Program (“ESPP”). These errors resulted in an overstatement of expenses and net loss or understatement of net income, and did not impact cash generated from operations, related to the fiscal years ended January 3, 2016 and January 1, 2017 and the first three quarters in the fiscal year ended December 31, 2017.

This control deficiency resulted in a revision of certain balances and disclosures previously reported in the consolidated financial statements for the periods indicated above. Additionally, this control deficiency could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued a report on our internal control over financial reporting. The report on the audit of internal control over financial reporting appears on page 136 of this Annual Report on Form 10-K.

Remediation Plan to Address Material Weakness

Management’s plan to remediate this material weakness includes redesigning controls over the evaluation of assumptions and detailed calculations relating to the ESPP and expanding its control activities to adequately reconcile and validate assumptions to the models used to determine non-cash stock-based compensation expense. In addition, effective January 1, 2018, management has changed the parameters of the ESPP, which is expected to reduce the number of inputs required to estimate the fair value of those awards.

The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect the remediation of this material weakness to be completed prior to the end of fiscal 2018.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Joseph Rauschmayer, the Company’s Executive Vice President of Manufacturing, a named executive officer, will retire February 28, 2018.

The Company’s new Executive Vice President of Worldwide Manufacturing, Dr. Wei-Chung Wang, joined the Company in October 2017.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K. We intend to 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 directors is incorporated by reference from the information set forth in the section titled “Proposal One—Election of Directors” in our Proxy Statement for the 2018 Annual Meeting of Stockholders, which we intend to file with the SEC within 120 days of the fiscal year ended December 31, 2017 (the “2018 Proxy Statement”).

The information required by this item concerning delinquent filers pursuant to Item 405 of Regulation S-K is incorporated by reference from the information set forth in the section titled “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2018 Proxy Statement.

The information required by this item concerning executive officers is incorporated by reference from Item 1 of this Annual Report on Form 10-K.

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. By referring to our website, we do not incorporate such website or its contents into this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item concerning executive compensation is incorporated by reference from the information set forth in the sections titled “Compensation Discussion and Analysis” and “Executive Compensation Tables” in our 2018 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 “Director Compensation” in our 2018 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 2018 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item concerning 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 2018 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 concerning transactions with certain persons is incorporated by reference from the information set forth in the sections titled “Policies and Procedures with Respect to Related Person Transactions” and “Certain Relationships and Related Transactions” in our 2018 Proxy Statement.

The information required by this item concerning director independence is incorporated by reference from the information set forth in the section titled “Corporate Governance” in our 2018 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item concerning 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 2018 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 “Proposal Two—Ratification of the Selection of Independent Registered Public Accounting Firm” in our 2018 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:

	<u>Page</u>
Consolidated Balance Sheets as of December 31, 2017 and January 1, 2017	64
Consolidated Statements of Operations for the year ended December 31, 2017, January 1, 2017 and January 3, 2016	65
Consolidated Statements of Comprehensive Income (Loss)	66
Consolidated Statements of Stockholders' Equity	67
Consolidated Statements of Cash Flows	68
Notes to Consolidated Financial Statements	69

2. Financial Statement Schedule for the years ended December 31, 2017, January 1, 2017 and
January 3, 2016:

	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts	146

The exhibits listed below are required to be filed as exhibits to the Cypress Semiconductor's Annual Report on Form 10-K for the year ended December 31, 2017.

3. Exhibits:

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Expenses or Other Accounts</u>	<u>Deductions Credited to Expenses or Other Accounts</u>	<u>Balance at End of Period</u>
	(In thousands)			
Allowance for doubtful accounts receivable:				
Year ended December 31, 2017	\$ 1,028	\$ —	\$ —	\$ 1,028
Year ended January 1, 2017	\$ 1,189	\$ 490	\$ (651)	\$ 1,028
Year ended January 3, 2016	\$ 738	\$ 576	\$ (125)	\$ 1,189
Deferred tax valuation allowance				
Year ended December 31, 2017	\$445,030	\$ 68,161(1),(2)	\$ —	\$513,191
Year ended January 1, 2017	\$512,975	\$ —	\$(67,945)(1)	\$445,030
Year ended January 3, 2016	\$358,424	\$154,551(1)	\$ —	\$512,975

-
- (1) Represents the change in valuation allowance primarily related to federal and state deferred tax assets that management has determined not likely to be realized due, in part, to projections of future taxable income.
- (2) Includes unrecognized tax benefits recorded as deferred tax asset of \$138.0 million related to the adoption of ASU 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.”

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ CAMILLO MARTINO</u> Camillo Martino	Director	February 26, 2018
<u>/s/ J. DANIEL MCCRANIE</u> J. Daniel McCranie	Director	February 26, 2018
<u>/s/ JEFFREY J. OWENS</u> Jeffrey J. Owens	Director	February 26, 2018
<u>/s/ JEANNINE P. SARGENT</u> Jeannine P. Sargent	Director	February 26, 2018
<u>/s/ MICHAEL S. WISHART</u> Michael S. Wishart	Director	February 26, 2018

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date/ Period End Date	Filed Herewith
1	If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.			
2.1	Agreement and Plan of Merger and Reorganization, dated as of December 1, 2014, by and among Cypress Semiconductor Corporation, a Delaware corporation, Mustang Acquisition Corporation, a wholly owned subsidiary of Cypress Semiconductor Corporation and a Delaware corporation, and Spansion Inc., a Delaware corporation.	8-K	12/1/2014	
3.1	Second Restated Certificate of Incorporation of Cypress Semiconductor Corporation.	10-K	12/31/2000	
3.1.1	Amendment to Second Restated Certificate of Incorporation.	8-K	3/24/2017	
3.2	Amended and Restated Bylaws of Cypress Semiconductor Corporation.	10-Q	8/9/2016	
3.2.1	Amendment to Amended and Restated Bylaws.	8-K	3/24/2017	
4.1	Supplemental Indenture, dated March 12, 2015, by and between Spansion LLC, Spansion Inc., Spansion Technology LLC and the other guarantors from time to time party thereto, Cypress Semiconductor Corporation and Wells Fargo Bank, National Association, as trustee.	8-K(1)	3/12/2015	
4.2	Indenture, dated June 23, 2016, by and between Cypress Semiconductor Corporation and U.S. Bank National Association.	8-K	6/23/2016	
4.3	Form of 4.50% Senior Exchangeable Note due 2022 (included in Exhibit 4.1 of the Form 8-K, referenced herein).	8-K	6/23/2016	
4.4	Form of Capped Call Transaction.	10-Q	7/3/2016	
4.5	Indenture, dated November 6, 2017, by and between Cypress Semiconductor Corporation and U.S. Bank National Association.	8-K	11/6/2017	
4.6	Form of 2.00% Senior Convertible Note due 2023 (included in Exhibit 4.1 of the Form 8-K referenced herein).	8-K	11/6/2017	
10.1+	Form of Indemnification Agreement.	S-1(2)	3/4/1987	
10.2+	Form of Change of Control Severance Agreement.	10-Q	7/3/2016	

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date/ Period End Date	Filed Herewith
10.3+	Severance Policy dated May 26, 2016.	10-Q	7/3/2016	
10.4+	Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan I.	10-K	1/3/2016	
10.48	Amendment No. 4 to the Amended and Restated Credit and Guaranty Agreement dated February 17, 2017.	8-K	2/21/2017	
10.49	Amendment No. 5 to Amended and Restated Credit and Guaranty Agreement dated April 7, 2017.	8-K	4/10/2017	
10.5	Joinder Agreement and Amendment No. 6 to Amended and Restated Credit and Guaranty Agreement dated August 18, 2017.	8-K	8/18/2017	
10.5+	Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan II.	10-K	1/3/2016	
10.54	Purchase Agreement, dated as of November 1, 2017, by and between Cypress Semiconductor Corporation and Barclays Capital Inc.	8-K	11/6/2017	
10.55	Mutual Release Agreement, dated as of June 11, 2017, by and between Cypress Semiconductor Corporation and H. Raymond Bingham.	8-K	6/12/2017	
10.56	Cooperation and Settlement Agreement, dated June 30, 2017.	8-K	7/6/2017	
10.6+	Cypress Semiconductor Corporation 2006 Key Employee Bonus Plan (KEBP) Summary.	10-K	3/17/2006	
10.7+	Cypress Semiconductor Corporation Performance Profit Sharing Plan (PPSP) Summary.	10-K	3/17/2006	
10.8	Memorandum of Agreement between GNPowder Ltd. Co. and Cypress Manufacturing Ltd.	10-Q	10/1/2006	
10.9	Guaranty dated December 12, 2006 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.10	Lease Agreement dated as of June 27, 2003 between Wachovia Development Corporation and Cypress Semiconductor Corporation.	10-Q	6/29/2003	
10.11	Memorandum of Agreement between GNPowder Ltd. Co. and Cypress Manufacturing Ltd.	10-Q	10/1/2006	
10.12	Guaranty dated December 12, 2006 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date/ Period End Date	Filed Herewith
10.13	Guaranty dated February 1, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.14	Guaranty dated March 19, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	4/1/2007	
10.15	Guaranty dated May 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	7/1/2007	
10.16	Guaranty dated June 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	7/1/2007	
10.17	Guaranty dated December 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/30/2007	
10.18	Guaranty, dated March 24, 2008, by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	3/30/2008	
10.19	Asset Purchase Agreement by and between Broadcom Corporation as Seller and Cypress Semiconductor Corporation as Buyer dated as of April 28, 2016.	10-Q	4/3/2016	
10.20	Project Le Cose Commitment Letter dated as of April 28, 2016	10-Q	4/3/2016	
10.21	Purchase Agreement by and among Merrill Lynch, Pierce, Fenner & Smith Incorporated and Cypress Semiconductor Corporation dated as of June 20, 2016.	10-Q	7/3/2016	
10.22	Joinder and Amendment Agreement, dated as of July 5, 2016, by and among Cypress Semiconductor Corporation, the guarantors party thereto, the incremental term loan lenders party thereto, and Morgan Stanley Senior Funding, Inc., as administrative agent and as collateral agent.	8-K	7/5/2016	
10.23+	Form of Restricted Stock Unit Agreement under the Cypress Semiconductor Corporation 2013 Stock Plan.	10-Q	9/27/2015	
10.24+	Amended Form of Restricted Stock Unit and Performance Stock Unit Grant Agreement under the 2015 PARS Grant program.	10-Q	6/28/2015	
10.25+	2012 Incentive Award Plan, as amended and restated.	S-8	12/12/2012	
10.26+	Spansion Inc. 2010 Equity Incentive Award Plan	S-8(3)	5/10/2010	

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date/ Period End Date	Filed Herewith
10.27+	Amendment to Spansion Inc. 2010 Equity Incentive Award Plan	8-K(3)	5/14/2010	
10.28+	1999 Non-Statutory Stock Option Plan, as amended and restated.	S-8	10/24/2008	
10.29+	Amended and Restated Cypress Semiconductor Corporation 2013 Stock Plan.	10-Q	9/27/2015	
10.30+	Employee Qualified Stock Purchase Plan, as amended and restated.	10-K	3/2/2016	
10.31+	2016 Cypress Incentive Plan.	8-K	2/25/2016	
10.32	Form of Cypress Support Agreement.	8-K	12/1/2014	
10.33	Form of Spansion Support Agreement.	8-K	12/1/2014	
10.34+	Thad Trent Employment Agreement.	10-K	2/17/2015	
10.37+	Employment Agreement and Release between Cypress Semiconductor Corporation and T.J. Rodgers dated June 3, 2016.	10-Q	7/3/2016	
10.39+	Employment Offer Letter, by and between Cypress Semiconductor Corporation and Hassane El-Khoury, dated August 10, 2016.	8-K	8/12/2016	
10.41+	Employment Agreement, by and between Cypress Semiconductor Corporation and Hassane El-Khoury, dated November 30, 2016.	10-K	1/1/2017	
10.42+	Amendment and Restatement Agreement, dated as of March 12, 2015, by and among Cypress Semiconductor Corporation, Cypress Semiconductor (Minnesota) Inc., Spansion Inc., Spansion LLC, Spansion Technology LLC, Spansion International AM, Inc., Spansion International Trading, Inc., the lenders party thereto, and Morgan Stanley Senior Funding, Inc., as administrative agent.	8-K	3/12/2015	
10.43+	Amended and Restated Credit and Guaranty Agreement, dated as of March 12, 2015, by and among Cypress Semiconductor Corporation, the guarantors from time to time party thereto, the lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc., as administrative agent and collateral agent, East West Bank, Silicon Valley Bank and SunTrust Bank, as syndication agents and documentation agents, and Morgan Stanley Bank, N.A., as Issuing Bank.	8-K(1)	3/12/2015	
10.44	Joinder Agreement dated as of December 22, 2015.	8-K	1/11/2016	

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date/ Period End Date	Filed Herewith
10.45	Incremental Revolving Joinder Agreement dated as of January 6, 2016.	8-K	1/11/2016	
10.46	Amendment No. 2 to Amended and Restated Credit and Guaranty Agreement dated March 23, 2016.	10-Q	5/10/2016	
10.47	Amendment No. 3 to Amended and Restated Credit and Guaranty Agreement dated April 27, 2016.	10-Q	4/3/2016	
10.48	Lease Agreement dated as of June 27, 2003 between Wachovia Development Corporation and Cypress Semiconductor Corporation.	10-Q	8/12/2003	
10.49	Lease Agreement between Spansion Inc. and Hines VAP No. Cal. Properties, LP, effective May 20, 2014.	10-Q(3)	5/29/2014	
10.50++	Distribution Agreement between Cypress Semiconductor Corporation and Fujitsu Electronics Incorporated dated September 10, 2015.	10-Q	9/16/2015	
10.51	Amendment to Amended and Restated Cypress Semiconductor Corporation Employee Stock Purchase Plan			X
21.1	Subsidiaries of Cypress Semiconductor Corporation.			X
23.1	Consent of Independent Registered Public Accounting Firm.			X
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).			X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			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.			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.			X
101.INS	XBRL Instance Document.			X
101.SCH	XBRL Taxonomy Extension Schema Document.			X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.			X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.			X

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Filing Date/ Period End Date	Filed Herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.			X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.			X

-
- + Identifies a management contract or compensatory plans or arrangements required to be filed as an exhibit.
 - ++ Confidential treatment has been granted with respect to portions of this exhibit.
 - +++ Exhibits 32.1 and 32.2 are being furnished and shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, nor shall such exhibits be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as otherwise specifically stated in such filing.
- (1) The agreement and description is qualified in its entirety by reference to the Amendment and Restatement Agreement, Restated Credit Agreement and the Amended and Restated Pledge and Security Agreement, which are attached as Exhibits 10.1, Exhibit 10.2 and Exhibit 10.3, respectively, to the Current Report on Form 8-K, filed March 12, 2015, and are incorporated herein by reference.
 - (2) There is no hyperlink available for this exhibit.
 - (3) Indicates a filing of Spansion Inc.

SUBSIDIARIES OF CYPRESS SEMICONDUCTOR CORPORATION

<u>Name</u>	<u>Jurisdiction of Incorporation or Formation</u>
Spansion International IP, Inc.	Cayman Islands
Spansion LLC	Delaware
Spansion Inc	Delaware
Spansion Technology LLC.....	Delaware
Cypress Semiconductor Technology Ltd.	Cayman Islands
Spansion International Trading, Inc.	Delaware
Spansion International AM, Inc.	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-203038 and 333-95711), Form S-4 (No. 333-201173) and Form S-8 (Nos. 333-212320, 333-203041, 333-199798, 333-189612, 333-185439, 333-174673, 333-165750, 333-154748, 333-150484, 333-131494, 333-119049, 333-108175, 333-104672, 333-101479, 333-99221, 333-91764, 333-71528, 333-66074, 333-58896, 333-44264, 333-93839, 333-93719, 333-76665, 333-68703, 333-52035, 333-24831, 333-00535, 033-59153, 033-57499, and 033-54637) of Cypress Semiconductor Corporation of our report dated February 26, 2018 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 26, 2018

**CERTIFICATION
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002**

I, Thad Trent, 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.

Date: February 26, 2018

By: _____ /s/ THAD TRENT

Thad Trent
*Executive Vice President, Finance and
Administration and Chief Financial Officer*

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Hassane El-Khoury, 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 December 31, 2017, 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 26, 2018

By: /s/ HASSANE EL-KHOURY

HASSANE EL-KHOURY

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thad Trent, 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 December 31, 2017 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.

Date: February 26, 2018

By: /s/ THAD TRENT
 Thad Trent
 *Executive Vice President, Finance and
 Administration and Chief Financial Officer*



March 29, 2018

Dear Fellow Stockholder:

You are cordially invited to attend Cypress Semiconductor Corporation's 2018 Annual Meeting of Stockholders. We will hold the meeting on May 11, 2018, at 10:00 a.m. Pacific Daylight 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.

Please refer to the Proxy Statement for detailed information on each of the proposals to be presented at 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 as of the record date, which is March 14, 2018, meaning that you hold shares directly with our transfer agent, Computershare Trust Company N.A., the inspector of elections will have your name on a list and you will be able to gain entry to the Annual Meeting with any form of government-issued photo identification (e.g., driver's license, state-issued ID card, passport). If you hold shares in a brokerage account or in "street name" and wish to attend the Annual Meeting in person, you will also need to bring a letter from your broker reflecting your stock ownership as of the record date.

Thank you for your ongoing support and continued interest in Cypress Semiconductor Corporation.

Very truly yours,

Hassane El-Khoury
President and Chief Executive Officer

CYPRESS SEMICONDUCTOR CORPORATION

NOTICE OF THE 2018 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: May 11, 2018

Time: 10:00 a.m. Pacific Daylight Time

Place: Cypress's principal executive offices located at 198 Champion Court, San Jose, California 95134

Items of Business:

1. The election of nine directors to serve on our Board of Directors for a one-year term, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal;
2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2018;
3. Annual advisory vote to approve the compensation of our named executive officers;
4. Amendment and restatement of our Employee Stock Purchase Plan to approve increasing the number of shares available for issuance under the plan; and
5. 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 of the 2018 Annual Meeting of Stockholders. This Notice, the 2017 Annual Report and our 2018 Proxy Statement are being made available to stockholders on or about March 29, 2018.

All stockholders are cordially invited to attend the Annual Meeting in person. Only stockholders of record at the close of business on March 14, 2018, 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 card or voted by telephone or online. We have provided voting instructions in the attached Proxy Statement on how you can vote your shares at or before the Annual Meeting. The attached Proxy Statement and our 2017 Annual Report to stockholders are also available online at www.cypress.com/2017annualreport. You are encouraged to access and review all of the important information contained in these materials prior to voting.

Our Board of Directors has selected the nine persons named in the Proxy Statement as its nominees for election to the Board of Directors at the Annual Meeting. Each of our nominees is currently serving as a director of Cypress. We believe that the nine nominees named in the attached proxy statement have a well-rounded combination of experience, expertise and insight, all necessary to provide the right leadership to build value for all Cypress stockholders.

FOR THE BOARD OF DIRECTORS



Pamela Tondreau
Corporate Secretary

San Jose, California, March 29, 2018

2018 ANNUAL MEETING OF STOCKHOLDERS
NOTICE OF ANNUAL MEETING AND PROXY STATEMENT
TABLE OF CONTENTS

	Page
CYPRESS SEMICONDUCTOR CORPORATION 2018 PROXY STATEMENT SUMMARY	1
FREQUENTLY ASKED QUESTIONS ABOUT THE PROXY MATERIALS AND VOTING	3
PROPOSAL ONE - ELECTION OF DIRECTORS	9
PROPOSAL TWO - RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	16
PROPOSAL THREE - ANNUAL ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS	17
PROPOSAL FOUR - AMENDMENT AND RESTATEMENT OF THE EMPLOYEE STOCK PURCHASE PLAN	18
SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS	24
CORPORATE GOVERNANCE	25
STOCK OWNERSHIP REQUIREMENTS	
POLICY ON DERIVATIVE TRADING / ANTI-HEDGING	
POLICY ON ANTI-PLEDGING	
COMMUNICATIONS FROM STOCKHOLDERS AND OTHER INTERESTED PARTIES	
CORPORATE GOVERNANCE GUIDELINES	
BOARD STRUCTURE	
BOARD'S ROLE IN RISK MANAGEMENT OVERSIGHT	
BOARD'S COMMITTEES	
DIRECTOR COMPENSATION	33
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	36
COMPENSATION COMMITTEE REPORT	39
COMPENSATION DISCUSSION AND ANALYSIS (CD&A)	40
EXECUTIVE SUMMARY	
COMPENSATION PROCESSES AND PHILOSOPHY	
ELEMENTS OF COMPENSATION	
CYPRESS 2017 EXECUTIVE COMPENSATION	
CYPRESS 2018 COMPENSATION ACTIONS	

EXECUTIVE COMPENSATION TABLES	58
<hr/>	
SUMMARY COMPENSATION TABLE	
GRANTS OF PLAN-BASED AWARDS	
OUTSTANDING EQUITY AWARDS	
OPTION EXERCISES AND STOCK VESTING	
NON-QUALIFIED DEFERRED COMPENSATION	
POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL	
CEO PAY RATIO	68
<hr/>	
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS	69
<hr/>	
OTHER REQUIRED DISCLOSURES	71
<hr/>	
COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION	
POLICIES AND PROCEDURES WITH RESPECT TO RELATED-PERSON TRANSACTIONS	
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	
OTHER MATTERS	72
<hr/>	
APPENDIX A	
<hr/>	
AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN	A-1
<hr/>	

CYPRESS SEMICONDUCTOR CORPORATION 2018 PROXY STATEMENT SUMMARY

This summary highlights information contained in this Proxy Statement. This summary does not contain all of the information you should consider. Please read the entire Proxy Statement carefully before voting.

2018 Annual Meeting Information (Begins on Page 3)	Items of Business		
<p>Date: May 11, 2018</p> <p>Time: 10:00 a.m. Pacific Daylight Time</p> <p>Location: Cypress Semiconductor Corporation, 198 Champion Court, San Jose, CA 95134</p> <p>Record Date: March 14, 2018</p> <p>Admission: To attend the meeting in person, you will need valid picture identification</p>	Proposal	Board Recommendation	Page Number
	1. The election of nine directors to serve on our Board of Directors for one-year terms, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.	For all	9
	2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year 2018.	For	16
	3. Annual advisory vote to approve the compensation of our named executive officers.	For	17
	4. Amendment and restatement of the Employee Stock Purchase Plan to approve increasing the number of shares available for issuance under the plan.	For	18

**Executive Compensation Highlights (Begins on Page 40)
Corporate Governance Practices**

We pay for performance:

- significant portion of named executive officer (“NEO”) compensation is 100% at-risk performance-based equity
- target total NEO compensation is aligned with peer group
- for fiscal year 2017, performance-based equity awards granted were contingent on debt leverage, profit before tax, strategic initiatives, gross margin and revenue growth milestones; performance-based equity awards under prior multi-year awards were contingent on gross margin, new product development, Total Shareholder Return (TSR), Earnings Per Share (EPS) and achievement of synergy milestones
- NEO performance-based compensation includes a multi-year component

We seek to mitigate compensation-related risk through a variety of vehicles, including through the following:

- an appropriate mix of pay elements, with compensation well-balanced between fixed and variable elements, and short- and long-term incentives
- base salaries that are intended to constitute a sufficient component of total compensation to discourage undue risk-taking in order to meet incentive goals
- incentive plans that are designed with goals that are intended to result in long-term value to our stockholders
- financial and earnings goals and opportunities in our incentive programs that are at levels intended to be attainable without the need to take inappropriate risks
- bonus and incentive opportunities are capped so that the upside potential is not so large as to encourage undue risk-taking
- the majority of our equity incentives vest or are earned over a multi-year period, which requires the executive to bear the economic risk of the award over the vesting or performance period
- our incentive plans define a range of performance over which payouts may be earned, including at levels below target achievement, rather than an “all-or-nothing” approach
- different performance measures in different incentive programs, which provides balance and reduces the potential for taking undue risks to meet a single goal
- stock ownership and retention guidelines for all NEOs
- an anti-hedging policy
- an anti-pledging policy for all NEOs and directors

We have strong corporate governance practices:

- annual election of directors
- majority voting in uncontested director elections
- proxy access bylaw provisions
- seven of nine directors are independent
- independent board committee members
- separation of chairman and CEO positions; independent chairman
- annual “say-on-pay” votes
- annual board and committee self-evaluations

Proxy Statement

Director Nominees				Committees		
Name	Director Since	Independent	Position	Audit	Comp.	Nom. & Corp. Governance
W. Steve Albrecht*	2003	x	Chairman of the Board	Chair		✓
Hassane El-Khoury	2016		President, Chief Executive Officer (“CEO”) and Director			
Oh Chul Kwon	2015	x	Director			
Catherine P. Lego	2017	x	Director	✓		
Camillo Martino	2017	x	Director	✓	Chair	
J. Daniel McCranie**	2017		Director			✓
Jeffrey J. Owens	2017	x	Director		✓	
Jeannine Sargent	2017	x	Director		✓	
Michael S. Wishart	2015	x	Director	✓	✓	Chair

* Mr. Albrecht has been designated as the “audit committee financial expert” in accordance with the requirements of the SEC and the Nasdaq Listing Rules.

** The Board has determined that Mr. McCranie is not independent as of the date of this Proxy Statement, due to his former employment at Cypress, which ended on April 28, 2015. The Company anticipates that Mr. McCranie’s former employment with Cypress will no longer preclude him from being independent on April 29, 2018, which is three years after his former employment ended.

CYPRESS SEMICONDUCTOR CORPORATION**PROXY STATEMENT FOR THE 2018 ANNUAL MEETING OF STOCKHOLDERS****FREQUENTLY ASKED QUESTIONS ABOUT THE PROXY MATERIALS AND VOTING****Why am I receiving these materials?**

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 2018 Annual Meeting of Stockholders, or any adjournment or postponement thereof (the “Annual Meeting”). The Annual Meeting will be held on May 11, 2018, at 10:00 a.m. Pacific Daylight Time at our principal executive offices located at 198 Champion Court, San Jose, California 95134. The telephone number at this address is (408) 943-2600.

Who may attend the Annual Meeting?

All stockholders and holders of proxies for those stockholders as of the close of business on March 14, 2018 (the “Record Date”), as well as other persons invited by Cypress, may attend the Annual Meeting. If you are a stockholder of record as of the Record Date, meaning that you hold shares directly with our transfer agent, Computershare Trust Company, N.A., the inspector of elections will have your name on a list, and you will be able to gain entry to the Annual Meeting with any form of government-issued photo identification (e.g., driver’s license, state-issued ID card, passport). Stockholders holding stock in brokerage accounts or in “street name” wishing to attend the Annual Meeting in person will also need to bring a letter from their broker reflecting their stock ownership as of the Record Date.

Who is entitled to vote?

Only Cypress stockholders as of the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the close of business on the Record Date, there were 358,092,263 shares outstanding of Cypress’s common stock, par value \$0.01 per share.

What may I vote on?

You may vote on all proposals listed below:

1. The election of nine directors to serve on our Board for one-year terms, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal;
2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2018;
3. Annual advisory vote to approve the compensation of our named executive officers;
4. Amendment and restatement of the Employee Stock Purchase Plan to approve increasing the number of shares available for issuance under the plan; and
5. The transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

What is the difference between a registered stockholder or stockholder of record and a beneficial stockholder?

Registered Stockholder or Stockholder of Record: Shares Registered in Your Name

If, on the Record Date, your shares were registered directly in your name with the Company’s transfer agent, Computershare Trust Company, N.A., 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 you may vote by proxy. Shares you hold in a bank or brokerage account are not generally registered directly in your name.



Beneficial Stockholder: Shares Registered in the Name of a Bank or Broker

If your shares were held in an account at a bank, brokerage firm, dealer or other similar organization on the Record Date, 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 instruct your bank or broker on how to vote the shares in your account. You are also invited to attend the Annual Meeting. You will be able to gain entry to the Annual Meeting with any form of government-issued photo identification (e.g., driver’s license, state-issued ID card, passport), along with a copy of a letter from your bank or broker reflecting your stock ownership as of the Record Date. 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 bank or broker in advance of the Annual Meeting.

How do I vote and what are the voting deadlines?

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. 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	 By telephone or online	In person at the Annual Meeting
<p>If you received printed proxy materials, you may submit your vote by completing, signing and dating each proxy card received and returning each proxy card in the prepaid envelope. Sign your name exactly as it appears on your proxy card. Proxy cards submitted by mail must be received no later than 5:00 p.m. Eastern Daylight Time on May 10, 2018.</p>	<p>You may vote your shares by telephone or online by following the instructions provided in the proxy materials. If you vote by telephone or online, you do not need to return a proxy card by mail. Online and telephone voting are available 24 hours a day. Votes submitted by telephone or online must be received by 11:59 p.m. Eastern Daylight Time on May 10, 2018.</p>	<p>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 online by the applicable deadline so that your vote will be counted if you later decide not to attend the Annual Meeting.</p>

Beneficial Stockholders: If you are the beneficial owner of your shares, you should have received the proxy materials and voting instructions from the bank or broker holding your shares. You should follow the instructions in the proxy materials and voting instructions to instruct your bank or broker on how to vote your shares. The availability of telephone and online voting will depend on the voting process of the bank or broker. Shares held beneficially may be voted in person at the Annual Meeting only if you obtain a legal proxy from the bank or broker in advance of the Annual Meeting giving you the right to vote your shares.

What shares may be voted and how may I cast my vote for each proposal?

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 you own for each proposal.

What is the effect of a broker vote?

Banks and brokers who hold shares of our common stock for a beneficial owner have the discretion to vote on “routine” proposals even if they have not received voting instructions from the beneficial owner at least ten days prior to the Annual Meeting. Proposal 2 is considered a “routine” matter under the applicable standards. A “broker non-vote” occurs when a bank or broker does not receive voting instructions from the beneficial owner on a particular matter and does not have the discretion to direct the voting of the shares on a particular proposal. 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 final vote with respect to a particular proposal. Thus, a broker non-vote may assist our ability to obtain a quorum, but will not otherwise affect the outcome of the vote on any proposal.

How many votes are needed to approve each proposal?

With respect to Proposal 1, Cypress has adopted a majority voting standard for uncontested director elections and a plurality voting standard for contested elections. The voting standard is discussed further under the section titled “*Proposal 1 — Election of Directors.*” Because the number of nominees timely nominated for election at the annual meeting does not exceed the number of directors to be elected at the meeting, the election of directors at the Annual Meeting is an uncontested election. As a result, directors will be elected by a majority of the votes cast at the Annual Meeting, meaning that each director that receives more “FOR” votes than “AGAINST” votes will be elected. If you hold your shares in “street name,” your bank or broker is not permitted to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you do not instruct your bank or broker how to vote in the election of directors, no votes will be cast on your behalf.

With respect to Proposals 2, 3 and 4, we must receive a “FOR” vote from the majority of shares present and entitled to vote either in person or by proxy in order for such proposal to be approved. Under Delaware law, if you “ABSTAIN” from voting for Proposals 2, 3 and 4, it will have the same effect as an “AGAINST” vote.

Proposal	Vote Required	Broker Vote Allowed
Proposal 1 – Election of nine directors	Majority of votes cast at the annual meeting	No
Proposal 2 – Ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for fiscal year 2018	Majority of shares entitled to vote and present in person or represented by proxy	Yes
Proposal 3 – Annual advisory vote to approve the compensation of our named executive officers	Majority of shares entitled to vote and present in person or represented by proxy	No
Proposal 4 – Amendment and restatement of the Employee Stock Purchase Plan to approve increasing the number of shares available for issuance under the plan	Majority of shares entitled to vote and present in person or represented by proxy	No

What is the quorum requirement?

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 bank or broker) 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 and date.

How can I change my vote or revoke my proxy?

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 online or by telephone, as more fully described in your proxy materials or proxy card. You may also revoke your proxy and change your vote by voting in person at the Annual Meeting.

If your shares are held in “street name” by a bank or broker, you may change your vote by submitting new voting instructions to your bank, broker, trustee or agent, or, if you have obtained a legal proxy from your bank or broker giving you the right to vote your shares, by attending the Annual Meeting and voting in person. 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.

What does it mean if I get more than one proxy or voting instructions card?

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”) to ensure that all your shares are voted.

Who will count the votes?

Representatives of an independent proxy tabulator will count the votes, and Pamela Tondreau, our Corporate Secretary, will act as the Inspector of Elections. The procedures to be used by the Inspector of Elections are consistent with Delaware law concerning the voting of shares, determination of a quorum and the vote required to take stockholder action.

How much did this proxy solicitation cost and who will pay for the cost?

This solicitation is made on behalf of Cypress’s Board and the Company will bear the cost of soliciting your vote in connection with this proxy statement (the “Proxy Statement”). These costs will include the costs of preparing, mailing, online processing and other costs of the proxy solicitation made by our Board. We have requested that banks, brokers and other custodians, agents and fiduciaries send these proxy 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, agents and fiduciaries representing beneficial owners of our common stock for their expenses in forwarding solicitation materials 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.

Such solicitations may be made by telephone, facsimile transmission, over the Internet or personal solicitation. No additional compensation will be paid to such officers, directors or regular employees for such services. The Company may also solicit shareholders through press releases issued by the Company, advertisements in periodicals and postings on the Company’s website at www.cypress.com.

The Company has retained Okapi Partners LLC (“Okapi”) to assist it in soliciting proxies and related services for a fee estimated to be approximately \$15,000, plus certain other service fees and expenses. The Company has also agreed to certain indemnification provisions with Okapi. The Company may incur other expenses in connection with the solicitation of proxies for the Annual Meeting.

Who are the participants in this proxy solicitation?

Our director nominees and certain of our officers and employees are considered “participants” in our solicitation under the rules of the Securities and Exchange Commission (the “SEC”) by reason of their position as directors and

director nominees of the Company or because they may be soliciting proxies on our behalf. See the section titled “*Security Ownership of Certain Beneficial Owners and Management*” for additional information with respect to such individuals.

How can I receive the Proxy Statement and annual report by electronic delivery?

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 online. Your enrollment in the e-delivery program will remain in effect as long as your account remains active or until you cancel your enrollment.

How can a stockholder request a copy of Cypress’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) for fiscal year 2017?

Online: Visit our website at www.cypress.com/2017annualreport to view the Annual Report online or print a copy.

By Mail: Send a written request for a copy of our Annual Report on Form 10-K to: Investor Relations, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. Upon receipt of such request by a stockholder, we will provide a printed copy of our Annual Report on Form 10-K without charge. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 was filed with the SEC on February 26, 2018.

How and when may I submit proposals or director nominations for consideration at next year’s annual meeting of stockholders?

For stockholder proposals to be considered for inclusion in our 2019 Proxy Statement, a written proposal must be received by our Corporate Secretary, at our principal executive offices located at 198 Champion Court, San Jose, California 95134, no later than November 29, 2018, in accordance with the requirements of Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). 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 pursuant to Rule 14a-8 of the Exchange Act would instead be publicly announced to stockholders and would be a reasonable time before we begin to print and mail our proxy materials.

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. Stockholders who wish to submit a proposal or director nomination under the Company’s bylaws must deliver written notice to our Corporate Secretary at the address above no earlier than January 13, 2019 and no later than February 12, 2019. Any such proposal or nomination 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 60 days after the anniversary date of this year’s annual meeting, you may submit a proposal or director nomination under the Company’s bylaws by delivering written notice to our Corporate Secretary at the address above no earlier than the close of business on the 120th day prior to the annual meeting and no later than the close of business on the later of (i) the 90th day prior to such annual meeting, or (ii) 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 Exchange Act regarding the inclusion of stockholder proposals in the Company’s proxy materials.

The Company’s bylaws also provide for separate notice procedures for eligible stockholders who wish to include their director nominees in the Company’s annual meeting proxy materials. Eligible stockholders who wish to submit a director nomination under the Company’s proxy access bylaw provisions must deliver written notice to our Corporate Secretary at the address above no earlier than December 12, 2018 and no later than January 11, 2019 (assuming an Annual Meeting date of May 11, 2018). Any such nomination must contain the specific information required by the Company’s bylaws.

If you would like a copy of Cypress's current bylaws, please write to: Corporate Secretary, 198 Champion Court, San Jose, California 95134. A copy is also filed with the SEC and can be accessed at www.sec.gov.

Where can I find the voting results of the Annual Meeting?

We will announce the preliminary voting results at the Annual Meeting and file a Current Report on Form 8-K announcing the final voting results after the Annual Meeting.

How many copies of the proxy materials will you deliver to stockholders sharing the same address?

To reduce the expenses of delivering duplicate proxy materials, we are taking advantage of the SEC's "householding" rules that permit us to deliver a single copy of the Proxy Statement and annual report to stockholders who share the same address, unless otherwise requested by one or more of the stockholders. We undertake to deliver promptly, upon written or oral request, a separate copy of such proxy materials to stockholders who share an address. You may request separate proxy materials for the Annual Meeting or for future annual meetings, or request that we send only one set of proxy materials to you if you are receiving multiple copies, by writing to Investor Relations, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134 or by calling (408) 943-2600.

PROPOSAL ONE
ELECTION OF DIRECTORS

Nine directors are to be elected to Cypress's Board of Directors (the "Board") at the 2018 Annual Meeting. Proxies can only be voted for the nominees named in this Proxy Statement. All directors are elected annually and serve a one-year term until the next annual meeting, with each director to hold office until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. If you submit a signed proxy card that does not specify how you wish to vote, your shares will be voted "FOR" all nine director nominees named below. 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 that 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 or she was selected as a director or a nominee. Each of Catherine P. Lego, Jeffrey J. Owens and Jeannine Sargent were appointed as a director by the Board in fiscal year 2017 and each is standing for election for the first time. All other nominees are standing for re-election.

Our Board members are encouraged, but are not required, to attend our annual meetings of stockholders. Messrs. Albrecht, El-Khoury, Martino, McCranie and Wishart attended our annual meeting of stockholders in fiscal year 2017. Ms. Lego, Mr. Owens, and Ms. Sargent were not on the Board at the time of the annual meeting of stockholders in fiscal year 2017.

There are no family relationships among our directors and executive officers.



W. Steve Albrecht

Age: 71

Director Since: 2003

Other Public

Directorships: Red Hat, Inc., SkyWest, Inc.

Former Public

Directorships: SunPower Corporation

Mr. Albrecht is a Professor Emeritus of the Marriott School of Management at Brigham Young University (BYU). He served as the associate dean of the school from 1998 to 2008 and the director of the School of Accountancy from 1990 to 1998. Mr. Albrecht, a certified public accountant, certified internal auditor and certified fraud examiner, joined BYU after teaching at Stanford University and the University of Illinois. Prior to becoming a professor, he worked as an accountant for Deloitte, an accounting firm. Mr. Albrecht is the past president of the American Accounting Association and the Association of Certified Fraud Examiners. 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. He is also a former member of COSO, the organization that developed the internal control framework used by most companies. He has consulted with numerous corporations on fraud, controls and financial reporting issues. He has been an expert witness in several large financial statement fraud cases. In addition to Cypress Semiconductor, he currently serves on the board of directors of Red Hat, Inc. and SkyWest, Inc. Mr. Albrecht has written over 125 academic and professional articles and over 25 books, including a textbook on corporate governance and boards of directors. Mr. Albrecht holds a bachelor of science degree from BYU, a master's degree in business administration and a doctorate degree in accounting from the University of Wisconsin.

Qualifications: Extensive experience with financial accounting & reporting and compliance, especially with respect to multi-national companies

Committees: Audit (Chair), Nominating & Corporate Governance



 Hassane El-Khoury

Age: 38

Director Since: 2016

**Other Public
Directorships:** None

**Former Public
Directorships:** None

Mr. El-Khoury has served as the president and chief executive officer of Cypress since August 2016. He was previously executive vice president of Cypress's Programmable Systems Division (from 2012 to 2016), managing the company's standard and programmable microcontroller portfolio, including its Platform PSoC family of devices, and its automotive business. Prior to that, from 2010 to 2012, he served as a senior director of Cypress's automotive business unit. Prior to joining Cypress, Mr. El-Khoury served in various engineering roles with subsystem supplier Continental Automotive Systems, where he spent time based in the U.S., Germany and Japan. He holds a bachelor of science degree in electrical engineering from Lawrence Technological University and a master's degree in engineering management from Oakland University.

Qualifications: Extensive product development and technology experience; leadership and operational management skills; substantial automotive industry experience

Committees: None



 Oh Chul Kwon

Age: 59

Director Since: 2015

**Other Public
Directorships:** None

**Former Public
Directorships:**
Spansion Inc.

Mr. Kwon served as chief executive officer of SK Hynix Semiconductor, a South Korean memory semiconductor supplier of dynamic random access memory (DRAM) chips and flash memory chips, from 2010 to 2013. Following his retirement from SK Hynix in 2013, Mr. Kwon has continued to serve as a senior advisor of SK Hynix. Mr. Kwon spent almost 30 years at SK Hynix (formerly Hyundai Electronics) in a number of executive roles, including President of Hynix Neumonics Semiconductor, a joint venture between SK Hynix and ST Microelectronics, in Wuxi, the People's Republic of China, from 2009 to 2010, and senior vice president of strategic planning and corporate relations of SK Hynix Semiconductor from 2003 to 2009. Mr. Kwon also served on the board of directors of SK Hynix from 2006 to 2013 and of Spansion Inc. from 2014 to 2015. Mr. Kwon has served as an economic advisor to the Jiangsu Provincial Government, People's Republic of China, since 2011, and as chairman of the Korea Semiconductor Industry Association from 2011 to 2013. Mr. Kwon holds a bachelor of arts degree in international economics from Seoul National University, South Korea.

Qualifications: Significant senior leadership, industry, financial and operational experience; international experience; extensive business development experience in the semiconductor industry

Committees: None



Catherine P. Lego

Age: 61

Director Since: 2017

Other Public

Directorships: Lam Research Corporation, IPG Photonics

Former Public

Directorships: Fairchild Semiconductor, SanDisk Corporation, ETEC Corporation, Uniphase Corp., WJ Communications, Inc.

Ms. Lego is the founder of Lego Ventures LLC, a consulting services firm and source of start-up capital for early stage technology companies, formed in 1992, and serves as its principal and owner. Ms. Lego has served on the board of Lam Research Corporation since 2006, where she is the chair of the Compensation committee and was the former chair of the Audit committee. In addition, Ms. Lego has served on the board of IPG Photonics since July 2016, where she is the chair of the Compensation committee. Ms. Lego previously was a partner at two venture capital funds and practiced as a certified public accountant with Coopers & Lybrand (now PwC). Ms. Lego received a bachelor of arts degree in economics and biology from Williams College and her master of science degree in accounting from the New York University Stern School of Business.

Qualifications: Extensive board level experience working with advanced technology and semiconductor companies; deep understanding of risk, accounting, acquisitions, due diligence and integration, compensation and investor relations; frequent speaker on board governance, ethics and audit quality at directors' colleges and events

Committees: Audit



Camillo Martino

Age: 56

Director Since: 2017

Other Public

Directorships:

MagnaChip Semiconductor Corporation, MosChip (India)

Former Public

Directorships: Silicon Image, Inc., Silicon Mountain Holdings, Inc.

Mr. Martino has served on the Company's Board of Directors since June 2017. Mr. Martino serves as a board member and executive advisor to technology companies, and has been a chief executive officer and C-suite executive of several semiconductor companies. He has also served as a member of the board of directors of MagnaChip Semiconductor Corporation since August 2016, and he was appointed to the board of directors of MosChip, a publicly listed company in India, in April 2017. Mr. Martino also serves on the board of directors at multiple privately held companies, including VVDN Technologies, an ODM technology company, since 2016, CyberForza, a cybersecurity technology company, since 2016, Agylstor Inc., a high capacity enterprise storage solutions company, since 2016, and SAI Technology, Inc. since 2015.

Previously, Mr. Martino served as a director and the chief executive officer of Silicon Image, Inc., a semiconductor company, from January 2010 until the completion of its sale to Lattice Semiconductor Corporation in March 2015. From January 2008 to January 2010, Mr. Martino served as chief operating officer of SAI Technology Inc., a cloud communications technology company, and as a director from June 2006 to November 2010. From July 2005 to June 2007, Mr. Martino served as the chief executive officer and as a director of Cornice Inc. From August 2001 to July 2005, Mr. Martino served as the executive vice president and chief operating officer at Zoran Corporation, a global semiconductor company. Prior to that, Mr. Martino held multiple positions with National Semiconductor Corporation for a total of nearly 14 years in four countries. Mr. Martino holds a bachelor of applied science from the University of Melbourne and a graduate diploma in digital communications from Monash University in Australia.

Qualifications: Extensive experience in the semiconductor industry, including experience as a director, chief executive officer and C-suite executive of a number of companies in the industry

Committees: Audit, Compensation (Chair)



J. Daniel McCranie

Age: 74

Director Since: 2017

Other Public

Directorships: None

Former Public

Directorships: ON Semiconductor, Mentor Graphics, Freescale Semiconductors

Mr. McCranie served as the chairman of the board of directors of ON Semiconductor Corporation from 2002 until 2017. Mr. McCranie also served on the board of directors of Mentor Graphics from 2012 to 2017. He served as chairman of the board of directors of Freescale Semiconductors from 2011 until 2014 and on the board of directors of Cypress Semiconductor from 2005 through 2014. From 2014 to 2015, he served as executive vice president of Sales and Applications at Cypress Semiconductor. He also served as executive chairman of Virage Logic, from 2008 until 2010. Previously, Mr. McCranie served as president and chief executive officer of Virage Logic from 2007 to 2008, executive chairman of Virage Logic from 2006 to 2007, and chairman of the board of directors of Virage Logic from 2003 to 2006. He also served as chairman of Actel Corporation from 2004 to 2010 and chairman of Xicor Corporation from 2000 to 2004. Mr. McCranie was also employed in various positions with Cypress Semiconductor from 1993 to 2001. From 1986 to 1993, Mr. McCranie was president, chief executive officer and chairman of SEEQ Technology, Inc.

Qualifications: Extensive experience as a chief executive officer and director of multiple semiconductor companies; deep knowledge of governance practices for technology companies

Committees: Nominating & Corporate Governance



Jeffrey J. Owens

Age: 63

Director Since: 2017

Other Public

Directorships: Rogers Corporation

Former Public

Directorships: None

Mr. Owens recently retired from his role as chief technology officer & executive vice president at Delphi Automotive, having served in that position from 2012 until 2017, where he was instrumental in transforming the company into a provider of software, electronics, and advanced safety and electrical architectures to the world's largest automotive manufacturers. Prior to his CTO role, he was president of Delphi's \$3 billion Electronics and Safety division, and also President of Delphi Asia Pacific. He is on the board of trustees at Kettering University and previously served as chairman of the board. Mr. Owens holds a bachelor of science in mechanical engineering / electrical engineering from Kettering University and a masters of business administration from Ball State University.

Qualifications: Extensive leadership, international, technology, engineering and operational experience in the automotive and electronics industries

Committees: Compensation



Jeannine Sargent

Age: 54**Director Since:** 2017**Other Public****Directorships:** None**Former Public****Directorships:** None

Ms. Sargent served as president of Innovation and New Ventures at leading contract manufacturer Flex from January 2012 until October 2017, and as chief executive officer at both Oerlikon Solar, a thin-film silicon solar photovoltaic module manufacturer, and Voyan Technology, an embedded systems software provider to the communications and semiconductor industries. She currently serves on several investment and advisory boards and is on the board of trustees at Northeastern University. She holds a bachelor of science in chemical engineering from Northeastern University and certificates from the executive development programs at the MIT Sloan School of Management, Harvard University and Stanford University.

Qualifications: Extensive leadership, operations, marketing and engineering experience within a diverse mix of high technology component and systems companies

Committees: Compensation



Michael S. Wishart

Age: 63**Director Since:** 2015**Other Public****Directorships:** None**Former Public****Directorships:**Spansion Inc.,
Brooktree Corporation

Mr. Wishart is the chief executive officer, co-founder and member of the board of directors of efabless corporation, an early stage company creating a platform for community-based design of semiconductors. In addition, Mr. Wishart is a venture partner at Tyche Partners, a venture capital firm focused on hardware-related companies, and provides strategic and business consulting as the president of Roehampton Road, LLC. Mr. Wishart previously served as a managing director and advisory director of Goldman, Sachs & Co. from 1999 until he retired in June 2011. From 1991 to 1999, he served as managing director, including as head of the global technology investment banking group for Lehman Brothers. From 1978 to 1992 he held various positions in the investment banking division at Smith Barney, Harris Upham & Co. He served on the board of directors of Spansion Inc. from 2013 to 2015 and currently serves on the board of OneD Material, a private company engaged in the technology transfer and licensing of proprietary silicon-graphite anode material to improve the performance of lithium ion batteries. Mr. Wishart holds a bachelor of science from St. Lawrence University and a master's in business administration from the Stanford Graduate School of Business.

Qualifications: Extensive experience advising technology companies as an investment banker

Committees: Audit, Compensation, Nominating & Corporate Governance (Chair)

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 currently serving as a director has performed his or her duties with critical attributes such as honesty, integrity, diligence and an adherence to high ethical standards. Furthermore, each of our current directors 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

Stockholders are not entitled to cumulate votes in the election of directors. Our bylaws provide that, in an uncontested election, each director would be elected by a majority of votes cast. A “majority of votes cast” means the number of shares voted “FOR” a director exceeds the number of shares voted “AGAINST” that director.

- THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE “FOR” THE ELECTION TO THE BOARD OF EACH OF THE NOMINEES NAMED ABOVE.**

PROPOSAL TWO**RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board, 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 December 30, 2018, 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 2018 Annual Meeting and will have an opportunity to make a statement if he or she desires to do so and will also 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 the 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 2016 and 2017 were pre-approved by the Audit Committee and were as follows:

Services	2016	2017
Audit Fees	\$6,347,211	\$4,485,115
Audit-Related Fees	\$625,000	\$108,964
Tax Fees	\$1,507,144	\$1,413,531
All Other Fees	—	\$2,700
Total	\$8,479,355	\$6,010,310

Audit Fees. Includes fees associated with the annual audit of our 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 with and review of other documents we file with the Securities and Exchange Commission, and statutory audits required internationally.

Audit-Related Fees. Audit-related services principally include systems pre-implementation review and due diligence services, 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 for acquisitions and international tax consulting.

All Other Fees. Includes fees for accessing PricewaterhouseCoopers LLP's online accounting research database.

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 December 30, 2018.

- 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
ANNUAL ADVISORY VOTE TO APPROVE THE COMPENSATION
OF OUR NAMED EXECUTIVE OFFICERS

The Dodd-Frank Act enables our stockholders to vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers (our “NEOs”) as disclosed in this Proxy Statement in accordance with Securities and Exchange Commission (the “SEC”) rules. We are providing this proposal for the vote of our stockholders pursuant to Section 14A of the Securities Exchange Act of 1934.

At our 2017 Annual Meeting, as recommended by our Board of Directors (the “Board”), a majority of our stockholders voted in favor of including an annual advisory vote to approve the compensation of our NEOs identified in our proxy statement (also known as “say-on-pay”) to be held at each annual meeting of stockholders. Therefore, we have included Proposal 3 in this Proxy Statement to provide our stockholders with a non-binding advisory, or “say-on-pay,” vote relating to the compensation of our NEOs as disclosed in this Proxy Statement. Your vote on this proposal will provide us with valuable insight into our stockholders’ view on our compensation practices pertaining to our NEOs.

Our executive compensation programs are designed to attract, motivate and retain our NEOs, who are critical to our success and have played material roles in our ability to drive strong financial results and attract and retain an experienced, successful team to manage our Company. Under these programs, our NEOs are rewarded for achieving specific short- and long-term strategic and corporate goals, and for realizing increased stockholder value. Please read the “*Compensation Discussion and Analysis (CD&A)*” section of this Proxy Statement for additional details about our executive compensation programs, specifically information about the fiscal year 2017 compensation of our NEOs.

The Compensation Committee continually reviews the compensation programs for our NEOs to ensure they achieve the desired goal of aligning our executive compensation structure with our stockholders’ interests and with current market practices. We have held stockholder advisory votes to approve the compensation of our NEOs annually since 2011. The recommendation provided by Institutional Shareholder Services and Glass Lewis (the two primary independent proxy advisory firms) and the overall approval rating by our voting stockholders for the last three proxy years are set forth below:

Proxy Year	Stockholder Approval Rating	ISS Recommendation	Glass Lewis Recommendation
2017	82%	FOR	FOR
2016	90%	FOR	FOR
2015	97%	FOR	FOR

In fiscal year 2017, we gave base salary increases to four of our NEOs, the annual cash-based incentive program was based on achieving specific revenue and profit before tax margin goals, and the long-term incentive program was based on time-vesting RSUs and three performance objectives for our performance-based awards granted in fiscal year 2017. We believe this demonstrates that our compensation program and incentive plans are designed to pay for performance, and resulted in an alignment between realized pay and Company performance. Please refer to the “*Compensation Discussion and Analysis (“CD&A”)*” section of this Proxy Statement for additional information regarding the compensation of our NEOs in fiscal year 2017.

This proposal, commonly known as a “say-on-pay” proposal, gives our stockholders the opportunity to express their views on our NEOs’ compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our NEOs and the philosophy, policies and practices described in this Proxy Statement. Accordingly, we 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 2018 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2017 Summary Compensation Table and the other related tables and disclosure pursuant to Item 402 of Regulation S-K.”

The “say-on-pay” vote is advisory, and therefore not binding on the Company, our Compensation Committee or our Board. Our Board and our Compensation Committee value the opinions of our stockholders. To the extent there is any significant vote against the NEO compensation as disclosed in this Proxy Statement, we will seriously consider our stockholders’ concerns and our 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 FOUR**AMENDMENT AND RESTATEMENT OF THE EMPLOYEE STOCK PURCHASE PLAN**

We currently sponsor and maintain the Cypress Semiconductor Corporation Employee Stock Purchase Plan (the “ESPP”). We are asking that stockholders ratify and approve an amendment and restatement of the ESPP (the “Restated ESPP”) to increase, by seven million (7,000,000) shares, the number of shares of Cypress common stock available for future issuance under the ESPP. Specifically, under the Restated ESPP, subject to stockholder approval, commencing with January 1, 2019, the Company will (a) be authorized to issue seven million (7,000,000) additional shares of Cypress common stock under the ESPP, and (b) remove the current annual refresh provision, which provides for an automatic annual share increase equal to the lesser of (i) 2,000,000 shares, (ii) .75% of the issued shares (where “issued shares” means the number of shares of Company common stock outstanding on such date) or (iii) a lesser amount determined by Cypress’s Board of Directors (the “Board”). The Restated ESPP, including the amendment to increase the number of shares that may be purchased under the ESPP was approved by Cypress’s Board, subject to stockholder approval. Stockholders last ratified and approved the ESPP on May 10, 2013. Subsequently, the Board amended and restated the ESPP in June 2015 and also approved certain amendments to the ESPP in November 2017. The amendments to the ESPP approved by the Board in November 2017 included (a) a reduction in the term of future offering periods under the ESPP from eighteen months to six months, and (b) removal of an automatic reset provision that permitted ESPP participants, under certain circumstances, to withdraw from a current offering period and begin a new offering period. We are requesting the increase in the number of shares that may be purchased under the ESPP due to the significant increase in the overall employee population over the past three years, strong rates of employee participation in the ESPP, and management’s belief that employee stock ownership helps contribute to the overall success of the Company.

Under the ESPP currently in effect, a total of 4,210,080 shares of Cypress common stock had been reserved, in June 2015, for future issuance under the ESPP, plus the annual refresh provision. As of March 14, 2018, 3,124,914 shares were available for purchase under the ESPP. The Board has approved, subject to stockholder ratification and approval, an amendment to increase the number of shares of Cypress common stock available for future issuance under the ESPP by seven million (7,000,000) shares. The closing price of Cypress’s common stock on March 26, 2018 was \$18.08 per share.

If the Restated ESPP is not approved by our stockholders, the requested increase of shares and the removal of the annual refresh provision under the Restated ESPP will have no further force or effect, and the existing ESPP, as previously amended by our Board, will continue in full force and effect, and we may continue to grant awards and issue shares under the current ESPP, subject to its terms, conditions and limitations, using the shares available for issuance thereunder pursuant to the current terms of the ESPP.

Cypress believes that substantial equity participation by employees is important in creating an environment in which employees will be motivated to remain employed and be productive for long periods of time. Cypress further believes that the attraction, retention and motivation of highly qualified personnel is essential to Cypress’s continued growth and success and that incentive plans, such as the ESPP, are necessary for Cypress to remain competitive in its compensation practices. In addition, Cypress believes that the ESPP (and other equity incentive programs) is an effective way to assure alignment of employees’ and stockholders’ interests and believes all such equity incentives are in the best interest of our stockholders.

In determining whether to approve the Restated ESPP, including the proposed increase to the number of shares available for future issuance under the ESPP, the Company considered the following:

- Unless the Restated ESPP is authorized and approved by our stockholders, the Company may not be able to meet the employees’ demands to participate in the ESPP and we will lose a powerful incentive and retention tool for employees that benefits all of our stockholders. The increase in the number of shares available for future issuance under the Restated ESPP will enable us to continue our policy of encouraging equity ownership by employees as an incentive to contribute to our success.
- We expect the proposed increase in the number of shares available for future issuance under the Restated ESPP to provide us with enough shares to meet employees’ desired participation within the terms of the Restated ESPP, assuming employee participation in the Restated ESPP remains

consistent with historical levels, as reflected in our three-year burn rate for the ESPP, and further dependent on the price of our shares and hiring activity during the next few years. We cannot predict our future share usage under the Restated ESPP, the future price of our shares or future hiring activity with any degree of certainty at this time.

- In 2015, 2016 and 2017, the end of year overhang rate attributable to the ESPP (calculated by dividing (1) the shares remaining available for issuance for future awards under the ESPP after the two applicable ESPP purchases for the year (but excluding the addition of the automatic annual refresh), by (2) the number of shares outstanding at the end of the fiscal year) was 0.52%, 0.46%, and 0.32%, respectively.
- In 2015, 2016 and 2017, our annual equity burn rates under the ESPP (calculated by dividing the number of shares issued under the ESPP for the applicable year by the number of shares outstanding at the end of the fiscal year) were 0.56%, 0.69% and 0.68%, respectively.
- In determining the size of the increase to the number of shares available for future issuance under the Restated ESPP, the Company considered the number of shares issued by the Company during the past three calendar years under our ESPP. For the two ESPP purchases applicable to 2015, we issued 1,860,818 shares. For the two ESPP purchases applicable to 2016, we issued 2,238,951 shares. For the two ESPP purchases applicable to 2017, we issued 2,378,641 shares.

Since participation is voluntary and the purchase price of shares under the ESPP during any given purchase period are in part a function of prevailing market prices of Cypress's common stock that vary from time to time, the benefits to be received by participants in the ESPP are not determinable prospectively at this time.

Summary of Material Features of the Restated ESPP

Term of ESPP

The ESPP will expire on May 10, 2023.

Eligibility

Any employee who is customarily employed for at least twenty (20) hours per week by the Company or its subsidiaries (other than any temporary employee or contingency worker) and that is designated by the Board as eligible to participate in the ESPP is eligible to participate in the ESPP. No employee who owns stock or holds outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company may participate. Moreover, no employee may participate to the extent that they may purchase stock under all employee stock purchase plans of the Company and its subsidiaries at a rate which exceeds \$25,000 of fair market value (determined on the first day of any offering period) in any calendar year. As of March 14, 2018, the Plan had approximately 6,848 eligible participants, including 5 executive officers and 6,843 employees. Of the eligible participants, 5 executive officers and 2,709 employees were participating in the ESPP.

Shares Available for Issuance

As of March 14, 2018, 3,124,914 shares were available for issuance under the ESPP. Currently, the ESPP provides for an automatic annual increase equal to the lesser of (i) 2,000,000 shares, (ii) .75% of issued shares as of the last day of the immediately preceding year, where "issued shares" means the number of shares of Company common stock outstanding on such date, plus any shares reacquired by the Company during the fiscal year that ends on such date, or (iii) a lesser amount determined by the Board. If the Restated ESPP is approved, the automatic annual increase provision will be removed.

If the Restated ESPP is approved, effective January 1, 2019, the maximum number of shares available for issuance under the ESPP will be equal to the number of shares available for future issuance as of such date, plus an additional seven million (7,000,000) shares.

Offering Period

Commencing in January 2018, the ESPP is implemented by six (6) month offering periods ("Offering Periods"). New Offering Periods generally commence on January 1 and July 1 of each year and end on June 30 and December 31 of each year, respectively (or if such day is not a trading day within the meaning under the ESPP, the trading day immediately prior to such date), or on such other date that the Board may determine. The Board has the power to change the duration of Offering Periods without stockholder approval if such change is announced at

least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected, provided that no Offering Period under the portion of the ESPP that complies with Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”) will have a duration of greater than 27 months.

Participation

Eligible employees may participate in the ESPP by completing a subscription agreement authorizing payroll deductions pursuant to the ESPP. Payroll deductions may not be less than two percent (2%) and may not exceed ten percent (10%) of the participant’s aggregate compensation during the Offering Period. A participant may discontinue participation in the ESPP or decrease the rate of payroll deductions during an Offering Period pursuant to the ESPP but may not decrease the rate or amount of payroll deductions more than two times in any one calendar year. In order to comply with Section 423(b)(8) of the Internal Revenue Code and eligibility limitations pursuant to the ESPP, a participant’s payroll deductions may be decreased to zero percent (0%).

Option Grant

The Internal Revenue Service views participants in our ESPP as receiving options. The price per share subject to the option is the lower of (i) eighty-five percent (85%) of the fair market value of a share of our common stock on the first day of the six-month Offering Period, or (ii) eighty-five percent (85%) of the fair market value of a share of our common stock on the applicable purchase date, generally, the last trading day of the six-month Offering Period. On the first day of each Offering Period, each eligible employee participant is granted an option to purchase on the applicable purchase date a number of shares of our common stock determined by dividing the employee’s payroll deductions accumulated prior to the purchase date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of our common stock on the first day of the Offering Period, or (ii) eighty-five percent (85%) of the fair market value of our common stock on the applicable purchase date. The maximum number of shares subject to each option is determined by dividing \$25,000 by the fair market value of a share of our common stock on the first day of the Offering Period, and other limitations pursuant to the ESPP.

Option Exercise

Unless a participant withdraws from the ESPP, a participant’s option for the purchase of shares of our common stock is exercised automatically on each applicable purchase date, which, as noted above, generally is the last trading day of the six-month Offering Period. The maximum number of full shares subject to the option is purchased for the participant at the applicable option price using the accumulated payroll deductions in his or her account. During a participant’s lifetime, the participant’s option to purchase shares under the ESPP is exercisable only by that participant.

Withdrawal; Termination of Employment

A participant may withdraw all, but not less than all, payroll deductions credited to his or her account and not yet used to exercise the option at any time by written notice to the Company. If a participant withdraws from an Offering Period, no further payroll deductions will be made during the Offering Period under the ESPP and payroll deductions will not resume at the beginning of the succeeding Offering Period. Withdrawal from an Offering Period has no effect upon a participant’s eligibility to participate in succeeding Offering Periods which commence after termination of the Offering Period from which the participant withdrew, or in any similar plan which we may thereafter adopt. For Offering Periods that commenced prior to January 1, 2018, in the event that the fair market value of the Company’s common stock is lower on an exercise date than it was on the offering date of such Offering Period, all then current participants are deemed to have withdrawn from the Offering Period immediately after the exercise of their option on such exercise date and have enrolled in the newly commencing Offering Period, unless otherwise elected by the participant. If a participant fails to remain as our employee or ceases to meet any other ESPP eligibility requirements, he or she is deemed to have elected to withdraw from the ESPP. Upon termination of the participant’s continuous status as an employee prior to a purchase date, payroll deductions credited to the participant’s account during the Offering Period but not yet used to exercise the option will be returned to the participant or, in the case of his or her death, to the person or persons entitled thereto, and the participant’s option will automatically terminate.

Adjustments Upon Changes in Capitalization & Certain Transactions

Any increase or decrease in the number of issued shares of our common stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of our common stock or any other increase or decrease in

the number of shares of our common stock effected without receipt of consideration by the Company, will proportionately adjust, as determined by the Board:

- the number of shares of common stock covered by each ESPP option,
- the number of shares of common stock which have been authorized for issuance under the ESPP, and
- the price per share of common stock covered by each ESPP option.

Any other issuance by us of shares of stock of any class, or securities convertible into shares of stock of any class, will not affect the number or price of shares of common stock subject to an ESPP option. In the event of proposed dissolution or liquidation of the Company, the then-current Offering Period will terminate immediately prior to the consummation of such proposed action, unless the Board provides otherwise. In the event of a sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, each option under the ESPP will be assumed or an equivalent option is substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines to terminate and shorten the Offering Period then in progress and provide for an early exercise date with respect to such shortened Offering Period, subject to the notice requirements set forth under the ESPP. The Board may adjust the number of shares reserved under the ESPP, the number of shares covered by each ESPP option that has not been exercised and the price per share of our common stock covered by each ESPP option that has not been exercised, in the event that we undertake any reorganizations, recapitalizations, stock splits, reverse stock splits, rights offerings or other increases or reductions of shares of our outstanding common stock that have been effected without receipt of consideration by the Company.

Amendment or Termination

The ESPP administrator may at any time and for any reason terminate or amend the ESPP, provided that any such termination will not affect options already granted, except as set forth in the ESPP. Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the administrator is entitled to:

- change the Offering Periods, subject to 27 month limitation described above,
- limit the frequency and/or number of changes in the amount withheld during an Offering Period,
- establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars,
- permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in our processing of properly completed withholding elections,
- accrue and pay a dividend during the Offering Period, and
- establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of our common stock properly correspond with amounts withheld.

In the event the administrator determines that the ongoing operation of the ESPP may result in unfavorable financial accounting consequences, the administrator may, in its discretion and, to the extent necessary or desirable, modify or amend the ESPP to reduce or eliminate such accounting consequence including, but not limited to (i) increasing the purchase price for any Offering Period including an Offering Period underway at the time of the change in purchase price; (ii) shortening any Offering Period so that the Offering Period ends on a new purchase date, including an Offering Period underway at the time of the administrator action; and (iii) allocating shares.

Number of Shares Purchased by Certain Individuals and Groups

Given that the number of shares that may be purchased under the ESPP is determined, in part, on our common stock's fair market value at the beginning or end of an Offering Period and given that participation in the ESPP is voluntary on the part of employees, the actual number of shares that may be purchased by any individual is not determinable prospectively. For illustrative purposes, the following table sets forth (a) the number of shares of our

common stock that were purchased during fiscal year 2017 under the ESPP, (b) the total purchase price and (c) the purchase price per share paid for such shares.

Name of Individual or Group	Number of Shares Purchased	Total Purchase Price (\$)	Purchase Price per Share (\$)
Hassane El-Khoury	3,474	28,968	8.34
Thad Trent	2,998	24,999	8.34
Sam Geha	3,318	27,667	8.34
Sudhir Gopalswamy	3,536	29,485	8.34
Pamela Tondreau	1,475	14,255	9.66
H. Raymond Bingham	—	—	—
All executive officers, including the Named Executive Officers above, as a group	14,801	125,374	8.49 ²
All directors who are not executive officers, as a group ¹	—	—	—
All employees who are not executive officers, as a group	2,378,075	20,177,093	8.49 ²
Total	2,392,876	20,302,467³	8.49²

1. Directors who are not employees of the Company are not eligible to participate in the ESPP.

2. Reflects an average purchase price per share.

3. The aggregate value of the total shares purchased based on the purchase date fair market value was \$30,191,237.

As of March 14, 2018, the following table sets forth (a) the number of shares of our common stock that were purchased during fiscal year 2018 under the ESPP, (b) the total purchase price and (c) the purchase price per share paid for such shares.

Name of Individual or Group	Number of Shares Purchased	Total Purchase Price (\$)	Purchase Price per Share (\$)
Hassane El-Khoury	—	—	—
Thad Trent	—	—	—
Sam Geha	—	—	—
Sudhir Gopalswamy	—	—	—
Pamela Tondreau	723	6,987	9.66
H. Raymond Bingham	—	—	—
All executive officers, including the Named Executive Officers above, as a group	723	6,987	9.66
All directors who are not executive officers, as a group ¹	—	—	—
All employees who are not executive officers, as a group	1,069,042	11,886,059	11.21 ²
Total	1,069,765	11,893,046³	11.21²

1. Directors who are not employees of the Company are not eligible to participate in the ESPP.

2. Reflects an average purchase price per share.

3. The aggregate value of the total shares purchased based on the purchase date fair market value was \$16,945,078.

Tax Aspects

The tax consequences of the purchase of shares of common stock under the ESPP are as follows:

- An employee will not have taxable income when the shares of common stock are purchased, but the employee generally will have taxable income when the employee sells or otherwise disposes of ESPP shares.
- For shares that the employee does not dispose of until more than 24 months after the first day of the Offering Period and more than 12 months after the purchase date (the “Holding Period”), the gain of up to 15% of the market price of the stock on the date of the Offering Period is taxed as ordinary income. Any additional gain above that amount is taxed at long-term capital gain rates. If, after the Holding Period, the employee sells the stock for less than the purchase price, the difference is a long-term capital loss.
- The Company may deduct for federal income tax purposes an amount equal to the ordinary income an employee must recognize when he or she disposes of stock purchased under the ESPP within the Holding Period. The Company may not deduct any amount for shares disposed of after the Holding Period.

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 Restated ESPP.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS VOTING “FOR”
THE APPROVAL OF THE ADOPTION OF THE AMENDMENT AND RESTATEMENT OF
THE EMPLOYEE STOCK PURCHASE PLAN.**

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes certain information with respect to our common stock that may be issued under our existing equity compensation plans as of March 14, 2018:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (millions)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (\$)	Number of Securities Remaining Available for Future Issuance (millions)
Equity Compensation Plans Approved by Security Holders	7.0 ¹	13.03 ³	47.6 ⁶
Equity Compensation Plans Not Approved by Security Holders	7.3 ²	6.98 ⁴	1.6 ⁷
Total	14.3	12.01⁵	49.2

1. Includes 3.8 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) granted.
2. Includes 6.7 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) granted.
3. Excludes the impact of 3.8 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) which have no exercise price.
4. Excludes the impact of 6.7 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) which have no exercise price.
5. Excludes the impact of 10.6 million shares of full value awards (restricted stock units, restricted stock awards and performance stock units) which have no exercise price.
6. Includes 44.5 million shares available for future issuance under Cypress's 2013 Stock Plan and 3.1 million shares available for future issuance under Cypress's Employee Stock Purchase Plan. The Cypress Employee Stock Purchase Plan also contains an annual refresh provision; for additional information, see *Proposal Four—Amendment and Restatement of the Employee Stock Purchase Plan*.
7. Includes 174 thousand shares available for future issuance under the assumed Ramtron Plan and 1.4 million shares available for future issuance under the assumed Spansion Plan.

See Note 9 of Notes to Consolidated Financial Statements under Item 8 of Cypress's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2018 for further discussion of Cypress's stock plans.

CORPORATE GOVERNANCE

Our business, assets and operations are managed under the direction of our Board of Directors (the “Board”). Members of our Board are kept informed of our business through discussions with our chief executive officer (“CEO”), our chief financial officer, our named executive officers (“NEOs”), our chief legal officer, members of management and other Company employees as well as our independent auditors, and by reviewing materials provided to them and participating in meetings of the Board and its committees.

In addition to its management function, our Board remains committed to strong and effective corporate governance, and, accordingly, it regularly monitors our corporate governance policies and practices to ensure we meet or exceed the requirements of applicable laws, regulations and rules, the Nasdaq Listing Rules, as well as the best practices of other public companies.

The Company’s corporate governance program features the following, among others:

- a Board that is up for election annually and has been for over 30 years;
- there is no stockholder rights plan in place;
- regularly updated charters for each of the Board’s committees, which clearly establish the roles and responsibilities of each such committee;
- Board committees that include and are chaired solely by independent directors, and that operate under committee charters that are publicly available on our website;
- a Board that has unrestricted access to the Company’s management, employees and professional advisers;
- regular executive sessions among our non-employee and independent directors;
- proxy access bylaw provisions in our bylaws, which allow eligible stockholders to include their director nominees in the Company’s proxy materials;
- a majority vote standard in uncontested director elections;
- a director resignation policy requiring any incumbent director who receives a greater number of votes “against” than votes “for” his or her election to promptly tender his or her resignation;
- a risk management program with specific responsibilities assigned to management, the Board and the Board’s committees;
- a clear Code of Business Conduct and Ethics that is reviewed annually for best practices;
- a clear set of Corporate Governance Guidelines that is reviewed annually for best practices;
- a clawback policy that requires the return of performance-based compensation payments to the Company by any executive (i) engaged in (a) fraud, theft, misappropriation, embezzlement or dishonesty, or (b) intentional misconduct related to the Company’s financial reporting, or (ii) in the event of a material negative revision of any financial or operating measure on which performance-based compensation was paid out to such executive;
- a long history of no perquisites for our directors and executive officers;
- the Compensation Committee’s engagement of an independent compensation consultant; and
- a director and committee self-evaluation process allowing the directors to provide additional feedback on the Board’s performance and other matters related to the Company.

In addition to the features above, we have a long-standing stock ownership requirement to ensure that the interests of our directors and executives remain aligned with the interests of the Company and its stockholders.

Stock Ownership Requirements

Our directors and executives have historically maintained strong stock ownership and our stock ownership requirements are consistent with industry best practices. The table below summarizes the stock ownership policy and status among our directors and NEOs as of March 14, 2018.

	Stock Ownership Requirement	Shares Actually Held
Chief Executive Officer	6X base compensation	8.5X base compensation
All Other Named Executive Officers	4X base compensation	3.5X - 11.4X base compensation
All Non-Employee Directors	5X annual cash retainer	0X - 68.2X annual cash retainer ¹

1. The 0X amount refers to the stock ownership of Mr. Owens and Ms. Sargent, each of whom was recently appointed to the Board.

As a result of such requirements, our directors and NEOs will continue to receive (and hold) a substantial amount of their Cypress compensation in shares of Cypress common stock, and maintain an even stronger alignment with the Company and our stockholders. All executives and directors are in compliance or expect to be in compliance within the required timeframe.

Named Executive Officers. Our CEO is required to own Cypress common stock having a value of at least six times his annual base salary. Common stock only includes shares directly owned and does not include any granted stock option awards, even if vested and in the money. Our NEOs, excluding our CEO, are required to own Cypress common stock having a value of at least four times their annual base salary. Individuals have three years from becoming a NEO to meet the stock ownership requirement. If the stock ownership requirement is not met after three years, then the NEO must hold all future shares that vest (net of taxes) until the stock ownership requirement is met.

Directors. Our non-employee directors are required to own a number of shares of Cypress common stock equal to five (5) times the annual cash retainer for non-employee directors (currently \$50,000). New non-employee directors are required to meet the requirement within five years of their appointment or initial election to the Board.

Policy on Derivative Trading / Anti-Hedging

The Company has a long-standing insider trading policy which regulates trading by our insiders, including our NEOs and Board members, and prohibits all employees and Board members from trading on material, non-public information. Our policy explains when transactions in Cypress common stock are permitted and provides that insiders may engage in transactions in Cypress common stock only during pre-established quarterly trading windows. The policy also sets forth certain types of prohibited transactions. Specifically, no Company director, employee, agent or contractor may engage in short sales or hedging activity of any kind, which includes buying put options on Cypress common stock.

Policy on Anti-Pledging

Cypress adopted and formalized a written pledging policy in fiscal year 2014 and the Compensation Committee approved modifications to the policy on February 15, 2017. As of February 15, 2017, Directors and NEOs are no longer permitted to pledge Cypress stock.

Communications from Stockholders and Other Interested Parties

Stockholders and other interested parties who wish to send communications on any relevant business topic to the Board or an individual director 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.

The Board will give appropriate attention to written communication on valid business or corporate governance issues that are submitted by Company 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, is primarily responsible for monitoring communications from stockholders and other interested parties, and will 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.

Corporate Governance Guidelines

Our Corporate Governance Guidelines provide the structure and other policies related to our Board. The guidelines cover, among other topics:

- director independence;
- Board structure and composition, including the designated Board committees;
- Board member nomination and eligibility requirements;
- Board leadership and executive sessions;
- limitations on other Board and committee service;
- director responsibilities;
- Board and committee resources, including access to management and employees;
- director compensation;
- director orientation and ongoing education;
- succession planning; and
- Board and committee self-evaluations.

Our current Corporate Governance Guidelines and our Code of Business Conduct and Ethics are posted on our website at <http://investors.cypress.com/corporate-governance.cfm>.

Board Structure

Our Board is comprised of nine directors, all of whom are independent except for our chief executive officer, Hassane El-Khoury, and J. Daniel McCranie, a former executive officer of the Company. As more fully described below under “Determination of Independence,” the Company anticipates that Mr. McCranie will be independent on April 29, 2018. 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. This leadership structure enhances accountability of our chief executive officer to the Board, provides a balance of power on our Board and encourages thoughtful decision-making. We also historically separated the roles in recognition of the differences in roles. While the CEO is responsible for the day-to-day leadership of the Company and the setting of strategic direction, the Chairman provides guidance to the Board and sets the agenda for and presides over Board meetings as well as meetings of the Board’s independent directors. The Chairman also provides performance feedback on behalf of the Board to our CEO.

Board Meetings and Executive Sessions. Executive sessions of independent directors are held at each regularly scheduled meeting of our Board and at other times as deemed necessary by our directors. In fiscal year 2017, our Board held four regularly scheduled meetings, and every director (then serving on the Board) attended all such Board meetings. At such meetings, every independent director attended the executive sessions. The Board also held 35 special meetings during fiscal year 2017. All of our then current directors attended at least 75% of all Board meetings. After his appointment as Chairman in June 2017, Mr. Albrecht presided over all executive sessions of our directors in fiscal year 2017. The Board’s policy is to hold executive sessions without the presence of management, including the CEO, and prior to his resignation, the Executive Chairman. The committees of the Board also meet in executive session at the end of each committee meeting.

Our directors are expected to attend each of the regularly scheduled board meetings. For that reason, the Board’s calendar is set in advance to ensure that all directors can attend all such meetings.

Determination of Independence. The Board has adopted the definition of “independence” as described under Nasdaq Listing Rule 5605 and the standards applicable to audit committees under Section 301 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) and Rule 10A-3 under the Securities Exchange Act of 1934 (the “Exchange Act”). In order to make a determination of independence of a director as required by our Corporate Governance

Guidelines and the rules of Nasdaq and the Securities and Exchange Commission (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 completes a questionnaire, with questions tailored to the Nasdaq Listing Rules, as well as the securities law requirements for independence. On the basis of the questionnaires completed and returned by each director, the Board determined that each of Messrs. Albrecht, Kwon, Martino, Owens and Wishart and each of Mses. Lego and Sargent is independent as determined under our Corporate Governance Guidelines, the Nasdaq Listing Rules and the Exchange Act. The Board determined that Mr. El-Khoury, our president and chief executive officer, is not independent by virtue of his employment and position at Cypress. The Board also determined that Mr. McCranie is not independent as of the date of this Proxy Statement due to his former employment at Cypress, which ended on April 28, 2015. The Company anticipates that Mr. McCranie’s former employment with Cypress will no longer preclude him from being independent on April 29, 2018, which is three years after his former employment ended. As of the date of this Proxy Statement, apart from Messrs. El-Khoury and McCranie, no other director has a relationship with Cypress other than through his or her membership on the Board and its committees.

Board’s Role in Risk Management Oversight

Among the responsibilities of our Board is the oversight, review and management of the Company’s various sources of risk. The Board addresses this risk, in part, through its engagement with our CEO and various members of management and the Company’s outside consultants. Directors also 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 regularly.

In the majority of cases, the Board implements its risk oversight responsibilities primarily through its various committees, which receive input from management on the potentially significant risks the Company faces and how the Company seeks to control, manage and mitigate risk where appropriate. If the report is deemed significant, the chairman of the relevant committee reports on the committee’s discussion to the Board during the committee reports portion of the next Board meeting. This enables the Board and its committees to coordinate risk oversight, particularly with respect to risk interrelationships.

The Board’s three standing committees (Audit, Compensation and Nominating and Corporate Governance) 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, cybersecurity, compliance and litigation. In addition, the Board regularly reviews reports from the Audit Committee regarding cybersecurity risk mitigation. The Audit Committee also oversees the activities of the Internal Audit Department, which independently assesses, audits and monitors risk throughout the Company. The Compensation Committee oversees risks related to our cash and equity compensation programs, perquisites and use of Company equity. The Nominating and Corporate Governance Committee oversees risks related to corporate governance, the composition of our Board and its committees, executive management and business ethics of the Company.

The foregoing committees, including the membership and function of each committee at the end of fiscal year 2017, are described in the table below with additional details following the table:

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
W. Steve Albrecht	Chairman		Member
Catherine P. Lego	Member		
Camillo Martino	Member	Chairman	
J. Daniel McCranie			Member
Jeffrey J. Owens		Member	
Jeannine Sargent		Member	
Michael S. Wishart	Member	Member	Chairman

The Board also had a standing Operations Committee, which was dissolved in April 2017. The Operations Committee, primarily through attending the Company's quarterly operations review meetings, oversaw risks related to operations, product development, supply chain and customers. The entire Board is now responsible for overseeing such risks.

Board's Committees

The Audit Committee. The Audit Committee consists of Messrs. Albrecht, Martino and Wishart and Ms. Lego, each of whom was determined to be independent as defined under the Nasdaq Listing Rules and the SEC rules applicable to audit committee members. The Audit Committee operates under a written charter adopted by our Board and reviewed annually by the Audit Committee. The Audit Committee's charter is available on our website at <http://investors.cypress.com/corporate-governance.cfm>. Mr. Albrecht serves as chair of the committee.

The Board determined that each member of the Audit Committee is financially literate and has accounting and/or related financial management expertise as required under the Nasdaq Listing Rules. While our Board designated Mr. Albrecht as the "audit committee financial expert" in accordance with the requirements of the SEC and Nasdaq Listing Rules, all of the members of our Audit Committee meet the qualifications for an audit committee financial expert.

The responsibilities of our Audit Committee and its activities during fiscal year 2017 are described in its charter and the Report of the Audit Committee contained in this Proxy Statement.

The Audit Committee, through delegation by the Board, has overall responsibility for:

- overseeing risks related to internal controls, financial reporting, fraud, insurance, treasury, cybersecurity, compliance and litigation;
- reviewing and approving the scope of the annual audit and the adequacy of the Audit Committee charter;
- assisting the Board in the oversight of the Company's compliance with legal and regulatory requirements;
- meeting separately with our independent registered public accounting firm, internal auditors and our senior management to identify, assess, manage and mitigate areas of risk for the Company;
- overseeing and reviewing our accounting and financial reporting processes, annual audit and matters relating to the Company's internal control systems, as well as the results of the annual audit;
- ensuring the integrity of the Company's financial statements;
- overseeing the outside auditor's performance, qualifications and independence issues;
- preparing a report of the Audit Committee to be included in the Company's annual proxy statement;
- pre-approving all proposed services and related fees to be paid to our independent registered public accounting firm;
- providing input on the risk assessment processes in the Company, which forms the basis of the annual audit plan;
- overseeing the Company's whistleblower policy and reporting function; and
- reviewing SEC filings, earnings releases and other forms of significant investor communications.

The Audit Committee met 11 times in fiscal year 2017 and at each regularly scheduled meeting met in executive session independently with each of management, our internal audit team and PricewaterhouseCoopers, our independent registered public accounting firm.

The members of the Audit Committee also comprised the members of the Company's Pricing Committee. For additional information on the Pricing Committee, please see the "Special Committees" section below.

The Compensation Committee. The Compensation Committee consists of Messrs. Martino, Owens and Wishart and Ms. Sargent, each of whom is determined to be independent under the Nasdaq Listing Rules. Mr. Martino serves as chair of the committee.

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 and executive officers, the preparation of the annual report on executive compensation for inclusion in our proxy statement and oversight of the Company's compensation and equity programs.

The Compensation Committee regularly considers the risks associated with our compensation policies and practices for employees, including those related to executive compensation programs. As part of the risk assessment, the Compensation Committee reviews our compensation programs to avoid certain design features that have the potential to encourage excessive risk-taking. Instead, our compensation programs are designed to encourage 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 and accordingly are not reasonably likely to have a material adverse effect on the Company. 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- and long-term returns for our business and our stockholders without providing an incentive to take unnecessary risks. In fulfilling its responsibilities, the Compensation Committee may, to the extent permitted under applicable law, the Nasdaq Listing Rules, the rules of the SEC and the Internal Revenue Code, and the Company's certificate of incorporation and bylaws, delegate any or all of its responsibilities to a subcommittee of the Compensation Committee. The Compensation Committee 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.

In conjunction with the recommendations of Pearl Meyer & Partners ("Pearl Meyer"), an independent compensation consultant, and our CEO, the Compensation Committee determines the compensation of our executive officers. 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 CEO.

The Compensation Committee, through delegation by the Board, has overall responsibility for:

- establishing the specific performance objectives for our senior management, including the CEO, and subsequently evaluating their compensation based on achievement of those objectives;
- formulating, implementing, reviewing, approving, and modifying the compensation of the Company's directors and senior management;
- recommending to the Board for approval the Company's compensation plans, policies and programs, and administering such approved compensation plans, policies and programs;
- reviewing and approving the Company's compensation discussion and analysis for inclusion in the proxy statement;
- reviewing and approving stock budgets for focal equity grants for all eligible employees;
- reviewing the annual benefit changes made by the Company with respect to its employees;
- overseeing the process of providing feedback to the CEO on his performance;
- overseeing the Company's equity incentive plans;
- overseeing and monitoring executive succession planning for the Company;
- conducting a periodic risk analysis of the Company's compensation policies and programs; and
- establishing the Company's derivative trading and pledging policies and overseeing compliance with such policies.

In discharging its duties, the Compensation Committee selects and 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 fiscal year 2017, the Compensation Committee retained the services of Pearl Meyer for various compensation-related services.

The Compensation Committee held 6 meetings during fiscal year 2017. The Report of the Compensation Committee is contained in this Proxy Statement. The charter for our Compensation Committee is posted on our website at <http://investors.cypress.com/corporate-governance.cfm>.

The Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee consists of Messrs. Albrecht, McCranie and Wishart. Mr. Wishart serves as chair of the committee. Messrs. Albrecht and Wishart are determined to be independent under the Nasdaq Listing Rules. As of the date of his appointment to the committee and the date of this Proxy Statement, Mr. McCranie is not independent under Nasdaq Listing Rule 5605(a)(2)(A) due to his former employment at Cypress, which ended on April 28, 2015.

However, Nasdaq Listing Rule 5605(e)(3) permits the appointment of a non-independent director to the Nominating and Corporate Governance Committee if the Board, under exceptional and limited circumstances, determines that the non-independent director's membership on the committee is required by the best interests of the Company and its stockholders. Based on Mr. McCranie's deep knowledge of the Company's business and his extensive experience as a public company director (including prior service as the Chairman of the Board of ON Semiconductor Corporation, the Chairman of the Board of Actel Corporation, the Chairman of the Board of Xicor Semiconductor and the Executive Chairman of Virage Logic), the Board determined that, under the exceptional and limited circumstances presented by the departures of H. Raymond Bingham and Wilbert van den Hoek from the Board, and Eric Benhamou from the Board and the Nominating and Corporate Governance Committee, Mr. McCranie's appointment to, and membership on, the committee was in the Company's and our stockholders' best interests.

Furthermore, the Company anticipates that Mr. McCranie's former employment with Cypress will no longer preclude him from being independent under Nasdaq Listing Rule 5605(a)(2)(A) on April 29, 2018, which is three years after his former employment ended. Accordingly, the Company anticipates that Mr. McCranie will be independent as of the date of the Annual Meeting.

The Nominating and Corporate Governance Committee has recommended to the full Board each of the nominees named in this Proxy Statement for election to the Board.

The purpose of the Nominating and Corporate Governance Committee is to:

- determine the skills, size, function, education and experiences the Board needs to most effectively meet its responsibilities;
- as part of its risk management, ensure the Board has the requisite mix of skills and expertise to competently oversee the operations of the Company;
- 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;
- consider resignations submitted pursuant to the Company's director resignation policy;
- develop, maintain and recommend to the Board a set of corporate governance principles;
- oversee the annual self-evaluation process of the Board and the Board committees;
- ensure that stockholder proposals, when approved, are implemented as approved;
- make recommendations to the Board on Board committee membership;
- assess and make representations on independence of Board and committee members;
- review and recommend changes to the Company's Code of Business Conduct and Ethics and Insider Trading Policy;
- evaluate, as needed, and address any concerns related to the performance of directors; and
- oversee the director's continuing education program.

With respect to board size, membership and nomination, the Nominating and Corporate Governance Committee is responsible for regularly assessing the size and composition of the Board and identifying exceptional director candidates in the event a vacancy occurs. In this regard, the Nominating and Corporate Governance Committee maintains a director skills matrix, for use in evaluating director competencies and the overall needs of the Board.

The Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating nominees for directorships, including requests to Board members, professional outside consultants and other third-party trusted sources. Through the process of identification and evaluation of potential director candidates, the Nominating and Corporate Governance Committee seeks to achieve a balance of experience, a broad knowledge base, integrity and capability on the Board. In addition, the Board recognizes the value of diversity, and believes that its membership should reflect a diversity of experience, gender, race, ethnicity, age, and tenure on the Board. Accordingly, the Nominating and Corporate Governance Committee considers diversity an important element in its consideration of director candidates.

Stockholders may recommend, with timely notice, potential director candidates to the Nominating and Corporate Governance Committee 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 or director nominations for consideration at next year’s annual meeting of stockholders?”* in the *“Frequently Asked Questions About The Proxy Materials And Voting”* section of this Proxy Statement for information regarding submitting nominations pursuant to the Company’s bylaws.

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, background, diversity and qualifications of our directors, considered as a group, should provide a critical composite mix of experience, knowledge and abilities that will allow our Board to fulfill its responsibilities and act in the best interest of the Company and its stockholders.

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate nominees includes (i) meeting from time to time to assess the real or potential needs of the Board, as well as to evaluate biographical information and background material relating to potential candidates and, if appropriate, (ii) conducting interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board. Assuming that appropriate biographical and background material is 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 the Board to our stockholders. The assessment is made in the context of the perceived needs of the Board at the time of the evaluation.

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 or guidelines previously identified by the Committee. 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.

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 2017.

The Nominating and Corporate Governance Committee held 4 meetings during fiscal year 2017. The charter for our Nominating and Corporate Governance Committee is posted on our website at <http://investors.cypress.com/corporate-governance.cfm>.

Special Committees. In fiscal year 2016, the Board established the Pricing Committee to oversee the pricing and management of the Company’s debt structure. The Pricing Committee currently consists of Messrs. Albrecht (Chairman), Martino, and Wishart and Ms. Lego and met several times in fiscal year 2017.

Printed copies of the Corporate Governance Guidelines, the Code of Business Conduct and Ethics, and the charters of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are also available to any stockholder upon written request to: Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134.

DIRECTOR COMPENSATION**Non-Employee Director Cash Compensation**

Our non-employee directors are paid an annual fee for serving on the Board, plus additional fees based on their committee service. Cash fees for our non-employee directors were not changed from 2009 to 2017. In 2018, the Board approved an increase in the cash fee payable to the chairman of the Nominating and Corporate Governance Committee (from \$5,000 to \$10,000). The table below shows the cash compensation for our non-employee Board members in fiscal year 2017.

Position	2017 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 ²

1. Excluding the Operations Committee fees, which were paid per meeting.
2. Fees paid for each of the Company's quarterly operations meetings attended. The Operations Committee was dissolved in April 2017.

In addition to the retainer and meeting fees described above, non-employee directors are also reimbursed for travel and other reasonable out-of-pocket expenses related to attendance at Board and committee meetings, business events on behalf of Cypress, and seminars and programs on subjects related to their responsibilities.

Members of the Pricing Committee did not receive compensation for their service on this committee.

Non-Employee Director Equity Compensation

Non-employee director equity compensation was increased in fiscal year 2015 from an equity award with a grant date value of approximately \$175,000 to an equity award grant date value of approximately \$200,000, and this value has not been increased since 2015. Upon their initial appointment to the board, each non-employee director is granted an equity award with a grant date value of approximately \$200,000, which vests annually over three years. Non-employee directors who are elected at Cypress's annual stockholders meeting receive an equity grant equal to approximately \$200,000, which vests the day before the next annual stockholders meeting (which we refer to as the annual equity grant). Any new director appointed by the board in between annual stockholder meetings will receive the annual equity grant, but with a value that is pro-rated for the number of months the director serves until the next annual stockholders meeting. All such awards are subject to the limitations set forth in Cypress's stock plan.

DIRECTOR COMPENSATION
Fiscal Year Ended December 31, 2017

Director	Fees Earned or Paid in Cash (\$)	Stock Awards ¹ (\$)	Option Awards ² (\$)	All Other Compensation (\$)	Total (\$) ³
W. Steve Albrecht ⁴	94,999	199,989	—	—	294,988
Eric A. Benhamou ⁵	42,500	—	—	—	42,500
H. Raymond Bingham ⁶	0	—	—	—	0
Oh Chul Kwon ⁷	50,000	199,989	—	—	249,989
Catherine P. Lego ⁸	20,892	366,647	—	—	387,539
Camillo Martino ⁹	41,690	399,978	—	—	441,668
J. Daniel McCranie ¹⁰	29,286	399,978	—	—	429,264
Jeffrey J. Owens ¹¹	16,154	333,321	—	—	349,475
Jeannine Sargent ¹²	2,966	283,322	—	—	286,288
Wilbert van den Hoek ¹³	30,879	199,989	—	—	230,868
Michael S. Wishart ¹⁴	80,000	199,989	—	—	279,989

- The value reported in the “Stock Awards” column represents the aggregate grant date fair value of awards granted in fiscal year 2017, as determined pursuant to ASC 718. The amount shown for each director reflects the grant date fair value of the annual equity grant for 14,847 restricted stock units made on June 26, 2017, which will vest in full on the day before the 2018 Annual Meeting. The directors had the following number of unvested restricted stock units at the end of fiscal year 2017: Mr. Albrecht, 14,847 unvested restricted stock units, which represents the annual equity grant in 2017; Mr. Kwon, 18,567 unvested restricted stock units, 14,847 of which represent the annual equity grant in 2017, and 3,720 of which represent the initial director grant upon joining the board in March 2015; Ms. Lego, 26,743 unvested restricted stock units, 12,156 of which represent the annual equity grant in 2017, and 14,587 of which represent the initial director grant upon joining the board in September 2017; Mr. Martino, 29,694 unvested restricted stock units, 14,847 of which represent the annual equity grant in 2017, and 14,847 of which represent the initial director grant upon joining the board in June 2017; Mr. McCranie, 29,694 unvested restricted stock units, 14,847 of which represent the annual equity grant in 2017, and 14,847 of which represent the initial director grant upon joining the board in June 2017; Mr. Owens, 23,523 unvested restricted stock units, 9,409 of which represent the annual equity grant in 2017, and 14,114 of which represent the initial director grant upon joining the board in September 2017; Ms. Sargent, 18,150 unvested restricted stock units, 5,338 of which represent the annual equity grant in 2017, and 12,812 of which represent the initial director grant upon joining the board in December 2017; and Mr. Wishart, 18,567 unvested restricted stock units, 14,847 of which represent the annual equity grant in 2017, and 3,720 of which represent the initial director grant upon joining the board in March 2015.
- No stock option awards were granted to our directors in fiscal year 2017. The following aggregate director option awards were outstanding at the end of fiscal year 2017: Mr. Wishart, 34,398 options, all of which are Spansion, Inc. (“Spansion”) awards issued prior to the merger with the Company.
- Stock awards, the board retainer fee, board and committee chairman fees and committee member fees have been prorated to the extent a Board member served on the Board or a committee for a portion of the year.
- Fees Earned includes a \$16,813 Board chairman fee, \$50,000 Board retainer fee, \$20,000 Audit Committee chairman fee, \$3,186 Compensation Committee member fee, and \$5,000 Nominating and Corporate Governance Committee member fee.
- Fees Earned includes a \$25,000 Board retainer fee, \$7,500 Audit Committee member fee, \$7,500 Compensation Committee chairman fee, and \$2,500 Nominating and Corporate Governance Committee member fee. Mr. Benhamou departed the Company in June 2017 and did not receive an annual equity grant in 2017.
- Mr. Bingham did not earn any fees for serving as a director in fiscal year 2017.
- Fees Earned includes a \$50,000 Board retainer fee.
- Fees Earned includes a \$16,071 Board retainer fee and \$4,821 Audit Committee member fee.
- Fees Earned includes a \$26,786 Board retainer fee, \$7,500 Audit Committee member fee, \$7,212 Compensation Committee chairman fee, and \$192 Compensation Committee member fee.

10. Fees Earned includes a \$26,786 Board retainer fee and \$2,500 Nominating and Corporate Governance Committee member fee.
11. Fees Earned includes a \$13,462 Board retainer fee and \$2,692 Compensation Committee member fee.
12. Fees Earned includes a \$2,472 Board retainer fee and \$494 Compensation Committee member fee.
13. Fees Earned includes a \$25,549 Board retainer fee, \$165 Audit Committee Member fee, \$165 Compensation Committee Chairman fee and \$5,000 Compensation Committee member fee.
14. Fees Earned includes a \$50,000 Board retainer fee, \$15,000 Audit Committee member fee, \$10,000 Compensation Committee member fee, and \$5,000 Nominating and Corporate Governance Committee chairman fee.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding common stock of the Company beneficially owned as of March 14, 2018, which includes any equity shares which each individual has the right to acquire within 60 days thereof through the exercise of stock options and the vesting of restricted stock units (RSUs), as well as those shares that were actually owned as of March 14, 2018 for:

- each of our directors and director nominees;
- our chief executive officer, our chief financial officer and each of the other individuals who met the requirements of a named executive officer as of fiscal year-end (the “named executive officers”);
- all individuals who serve as directors or executive officers as of March 14, 2018 as a group; and
- each person (including any “group” as that term is used in Rule 13(d)(3) of the Securities Exchange Act of 1934) who is known by us to own beneficially more than 5% of our common stock as of the date identified on their Schedule 13G or 13D filing.

As of March 14, 2018, 358,092,263 shares of the Company’s common stock were issued and outstanding.

Directors, Officers and 5% Stockholders	Shares Beneficially Owned ¹	Percent*	Shares Owned Outright ²
Directors			
W. Steve Albrecht ³	199,586	*	184,739
Oh Chul Kwon ⁴	65,223	*	50,376
Catherine P. Lego ⁵	52,856	*	40,700
Camillo Martino ⁶	34,847	*	20,000
J. Daniel McCranie ⁷	69,847	*	55,000
Jeffrey J. Owens ⁸	9,409	*	—
Jeannine Sargent ⁹	5,338	*	—
Michael S. Wishart ¹⁰	118,221	*	68,976
Named Executive Officers			
H. Raymond Bingham ¹¹	95,466	*	95,466
Hassane El-Khoury ¹²	326,864	*	300,349
Sam Geha ¹³	65,647	*	64,447
Sudhir Gopalswamy ¹⁴	136,923	*	129,125
Pamela Tondreau ¹⁵	145,247	*	145,247
Thad Trent ¹⁶	301,852	*	247,515
All directors and executive officers of the Company at fiscal year-end as a group¹⁷	1,531,860	*	1,306,474
5% Stockholders			
BlackRock, Inc. ¹⁸ 55 East 52nd Street New York, NY 10055	29,863,760	8.3%	—
The Vanguard Group ¹⁹ 100 Vanguard Blvd. Malvern, PA 19355	30,444,692	8.5%	—
Waddell & Reed Financial, Inc. ²⁰ 6300 Lamar Avenue Overland Park, KS 66202	19,714,391	5.5%	—

* Less than 0.5%. See footnotes below.

1. For each person and group included in this column excluding those companies listed under the *5% Stockholders* heading, beneficially owned shares includes the number of shares of common stock that such person or group had the right to acquire within 60 days after March 14, 2018.
2. For each person and group included in this column excluding those companies listed under the *5% Stockholders* heading, shares owned by such person or group excludes the number of shares of common stock that such person or group had the right to acquire within 60 days after March 14, 2018.
3. Shares Beneficially Owned includes 184,739 shares of common stock held directly by Mr. Albrecht and 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 184,739 shares of common stock held directly by Mr. Albrecht, and excludes 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
4. Shares Beneficially Owned includes 50,376 shares of common stock held directly by Mr. Kwon and 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 50,376 shares of common stock held directly by Mr. Kwon, and excludes 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
5. Shares Beneficially Owned includes 40,700 shares of common stock held directly by Ms. Lego and 12,156 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 40,700 shares of common stock held directly by Ms. Lego, and excludes 12,156 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
6. Shares Beneficially Owned includes 20,000 shares of common stock held directly by Mr. Martino and 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 20,000 shares of common stock held directly by Mr. Martino, and excludes 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
7. Shares Beneficially Owned includes 55,000 shares of common stock held directly by Mr. McCranie and 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 55,000 shares of common stock held directly by Mr. McCranie, and excludes 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
8. Shares Beneficially Owned includes 9,409 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
9. Shares Beneficially Owned includes 5,338 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
10. Shares Beneficially Owned includes 68,976 shares of common stock held directly by Mr. Wishart, an option to purchase 34,398 shares of common stock, which is fully vested, and 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 68,976 shares of common stock held directly by Mr. Wishart, and excludes an option to purchase 34,398 shares of common stock, which is fully vested, and 14,847 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
11. Shares Beneficially Owned and Shares Owned Outright both include 54,830 shares of common stock held directly by Mr. Bingham and the Raymond and Kristin Bingham Revocable Trust, and 40,636 shares of common stock held indirectly by Bingham Investments L.P.
12. Shares Beneficially Owned includes 300,349 shares of common stock held directly by Mr. El-Khoury, an option to purchase 8,111 shares of common stock, which is fully vested, and 18,404 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 300,349 shares of common stock held directly by Mr. El-Khoury, and excludes an option to purchase 8,111 shares of common stock, which is fully vested, and 18,404 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
13. Shares Beneficially Owned includes 64,447 shares of common stock held directly by Mr. Geha and an option to purchase 1,200 shares of common stock, which is fully vested. Shares Owned Outright includes 64,447 shares of common stock held directly by Mr. Geha, and excludes an option to purchase 1,200 shares of common stock, which is fully vested.

14. Shares Beneficially Owned includes 129,125 shares of common stock held directly by Mr. Gopalswamy, an option to purchase 6,598 shares of common stock, which is fully vested, and 1,200 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 129,125 shares of common stock held directly by Mr. Gopalswamy, and excludes an option to purchase 6,598 shares of common stock, which is fully vested, and 1,200 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
15. Shares Beneficially Owned and Shares Owned Outright both include 145,247 shares of common stock held directly by Ms. Tondreau.
16. Shares Beneficially Owned includes 247,515 shares of common stock held directly by Mr. Trent, an option to purchase 53,003 shares of common stock, which is fully vested, and 1,334 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 247,515 shares of common stock held directly by Mr. Trent, and excludes an option to purchase 53,003 shares of common stock, which is fully vested, and 1,334 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
17. Shares Beneficially Owned includes 1,306,474 shares of common stock held directly or indirectly by our directors, executive officers, and their family members, options to purchase 103,310 shares of common stock and 122,076 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018. Shares Owned Outright includes 1,306,474 shares of common stock held directly or indirectly by our directors, executive officers, and their family members and excludes options to purchase 103,310 shares of common stock and 122,076 shares of common stock issuable upon vesting of RSUs within sixty days of March 14, 2018.
18. The ownership information set forth in the table and this footnote is based on information contained in a statement on Schedule 13G/A filed with the Securities and Exchange Commission (the "SEC") on February 8, 2018. BlackRock, Inc. has sole voting power with respect to 28,609,413 shares and sole dispositive power with respect to 29,863,760 shares of common stock.
19. The ownership information set forth in the table and this footnote is based on information contained in a statement on Schedule 13G/A filed with the SEC on February 9, 2018. The Vanguard Group has sole voting power with respect to 175,819 shares, shared voting power with respect to 38,789 shares, sole dispositive power with respect to 30,255,260 shares and shared dispositive power with respect to 189,432 shares of common stock.
20. The ownership information set forth in the table and this footnote is based on information contained in a statement on Schedule 13G/A filed with the SEC on February 14, 2018. Waddell & Reed Financial, Inc. has indirect sole voting power and indirect sole dispositive power with respect to 19,714,391 shares of common stock. Waddell & Reed Financial Services, Inc. and Waddell & Reed, Inc. each have indirect sole voting power and indirect sole dispositive power with respect to 7,902,881 shares of common stock. Waddell & Reed Investment Management Company has direct sole voting power and direct sole dispositive power with respect to 7,902,881 shares of common stock. Ivy Investment Management Company has direct sole voting power and direct sole dispositive power with respect to 11,811,510 shares of common stock.

COMPENSATION COMMITTEE REPORT

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 (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 following 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 on Schedule 14A.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Camillo Martino, Chairman
Jeffrey J. Owens
Jeannine Sargent
Michael S. Wishart

COMPENSATION DISCUSSION AND ANALYSIS (CD&A)

This Compensation Discussion and Analysis (CD&A) describes Cypress’s executive compensation philosophies, objectives and programs, as well as the compensation-related actions taken in fiscal year 2017 for the following named executive officers (“NEOs”):

Name	Title
Hassane El-Khoury	President and Chief Executive Officer (“CEO”)
Thad Trent	Chief Financial Officer and Executive Vice President, Finance and Administration
Sam Geha ¹	Executive Vice President, Memory Products
Sudhir Gopalswamy ²	Executive Vice President, Microcontroller & Connectivity
Pamela Tondreau ³	Executive Vice President, Chief Legal Officer & Human Resources
H. Raymond Bingham ⁴	Former Executive Chairman (until June 2017)

1. Mr. Geha was promoted to Executive Vice President, Memory Products in February 2018. Previously, he served as the Company’s Senior Vice President of the Memory Products Division.
2. Mr. Gopalswamy was promoted to Executive Vice President, Microcontroller & Connectivity in February 2018. Previously, he served as the Company’s Senior Vice President of the Microcontroller & Connectivity Division.
3. Ms. Tondreau was promoted to Executive Vice President, Chief Legal Officer and Human Resources in February 2018. Previously, she served as the Company’s Senior Vice President, Chief Legal Officer & Human Resources.
4. Mr. Bingham resigned from his position as Executive Chairman and member of the Company’s Board in June 2017.

This CD&A also summarizes our planned compensation changes for fiscal year 2018.

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.

Executive Summary***Business Highlights***

Fiscal year 2017 was a year of execution on our Cypress 3.0 initiatives. In that regard, we increased our focus on becoming a solutions driven company, increased our ease of doing business, redeployed personnel and resources to target market segments that are expected to grow faster than the industry (including automotive, industrial and the Internet of Things (IoT)), and streamlined our internal processes. In addition, we added several new board members to support the Company’s long-term strategy.

Cypress accomplished the following in fiscal year 2017:

- GAAP and Non-GAAP revenue increased by 21% and 20%, respectively;
- GAAP and Non-GAAP Earnings Per Share (EPS) improved by 89% and 86%, respectively, growing more than four times faster than revenue;
- free cash flow increased by 118%;
- ended the year with a Total Shareholder Return (TSR) of 38.8%;
- continued to execute on our gross margin improvement plan; we increased GAAP and Non-GAAP gross margin to 41.1% and 42.2%, respectively;
- increased our automotive market segment revenue by 16% over fiscal year 2016;
- grew our IoT wireless connectivity business by 46% over our Q4 2016 annualized run-rate;
- more than tripled sales of our USB Type-C solutions over fiscal year 2016;

- returned \$145 million to Cypress stockholders in the form of cash dividends; and
- reduced our overall debt leverage from 4.3x in 2016 to 2.3x exiting 2017, as defined by total principal amount of debt divided by trailing 12 months Non-GAAP earnings before interest, taxes, depreciation and amortization (EBITDA).

Furthermore, our net burn rate for fiscal year 2017 was 1.1%. The burn rate is calculated by dividing the net shares issued by the Non-GAAP 12-month weighted average diluted shares outstanding.

Non-GAAP financial measures are adjusted from the most directly comparable GAAP financial measures to exclude certain items. There are limitations in using non-GAAP financial measures including those measures referenced above. Moreover, the Company's non-GAAP measures may be calculated differently than the non-GAAP financial measures used by other companies. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP financial measures. The non-GAAP financial measures supplement and should be viewed in conjunction with GAAP financial measures.

Responding to our Stockholders

When determining executive compensation, the Compensation Committee considers the results of the annual advisory "say-on-pay" vote cast by stockholders. Cypress received an 82% passing vote at its 2017 annual meeting, at which stockholders approved Cypress's executive compensation programs. Cypress believes it is critical to continue to expand the dialogue with stockholders to receive additional feedback and further explain its compensation philosophy and practices. As such, Cypress conducted an investor outreach program in fiscal year 2017 with the Company's top stockholders. As a result of such discussions, Cypress is continuing to provide detailed disclosure on multi-year equity grants and modifying performance milestones to ensure greater alignment with stockholders' interests. Cypress has also made efforts to simplify our performance-based incentive cash compensation program, based on our discussions with our investors.

Compensation Processes and Philosophy

Cypress's Philosophy

Cypress's executive compensation programs are designed to attract, motivate, and retain NEOs, who are critical to Cypress's success. Under these programs, NEOs are rewarded for achieving specific short- and long-term strategic, corporate goals, and realizing increased stockholder value.

Cypress's philosophy is to target NEO total direct compensation at approximately the 50th percentile among the named peer group companies, for median levels of performance, with higher compensation for above plan performance and lower compensation for below plan performance. We accomplish this through:

- base salary levels that are targeted to the median for our peer group;
- target cash incentive awards that are close to the median target awards of our peers;
- stock-based compensation, which results in target total direct compensation at the median of the peer group;
- equity grants generally weighted more towards performance-based shares, with single and multi-year measurement periods, and weighted less towards service-based shares; and
- a standard employee benefits package.

The Cypress Incentive Plan (CIP) provides a good example of how pay is materially impacted by performance. Each year we establish corporate goals and individual scorecards comprised of quarterly and annual critical success factors (CSFs). These scorecards are derived from the Company's annual operating plan which is approved by our Board. The annual operating plan is management's best estimate of the Company's performance in that year. Under the CIP, Cypress NEOs receive compensation (i) above target levels to the extent performance exceeds targeted annual operating plan levels, and (ii) below target if the Company does not achieve annual operating plan goals.

Cypress's compensation programs are designed to achieve the following objectives:

Attract and Retain Top Talent

Cypress aims to attract and retain top talent to compete effectively and retain the highest quality of executives who will determine its long-term success. Cypress has structured its executive compensation program to be competitive with compensation paid by companies in the same market for executive talent. This is very important, especially in the Silicon Valley area where Cypress is headquartered. To ensure Cypress remains competitive, Cypress generally administers an annual compensation review process to evaluate whether the current level of cash and equity compensation for each executive is adequate and then makes adjustments based on merit.

Pay-for-Performance

Cypress uses pay-for-performance compensation programs to align executive compensation with its achievements on both a short- and long-term basis. NEOs' target total direct compensation is generally heavily weighted towards at-risk, performance-based cash and equity compensation, which includes quarterly and annual incentive cash bonuses and performance stock units. The performance targets under these programs are challenging and pre-determined both at the corporate level, through corporate goals, and at a personal level—for cash bonuses—through individual goals set for each applicable period. This aligns NEO compensation with stockholder interests by tying a significant portion of total direct compensation to achieving performance goals designed to ensure Cypress's financial and operational success over both the short- and long-term. Both are set in advance and pre-approved by the Compensation Committee. Compensation is designed to be very rewarding when the goals are achieved above target and to result in limited or no payout when the goals are not achieved, with the Compensation Committee providing oversight to ensure payouts are consistent with financial results.

Process

The Compensation Committee reviews and approves all compensation for NEOs, including salary, bonus, equity compensation, and other employee benefits. The Compensation Committee consists entirely of independent directors and has a two-fold philosophy regarding the total compensation of senior executives. First, the Compensation Committee seeks to encourage and reward executives for achievements that are critical to Cypress's performance and profitability over both the short- and long-term by tying a significant portion of NEOs' total compensation directly to Cypress's financial, operational and stock price performance. Second, the Compensation Committee seeks to ensure that executive compensation is competitive by targeting the total direct compensation of each executive at approximately the 50th percentile of executive compensation of Cypress's peer group of companies. The actual percentile may vary depending on Cypress's financial performance, each executive's individual performance and importance to Cypress, and internal equity considerations among all senior management. As Cypress's performance improves, so does the compensation of its NEOs. However, the Compensation Committee may also use its judgment to apply negative discretion to reduce payouts of certain compensation programs.

The Role of the Independent Compensation Consultant

The Compensation Committee retained Pearl Meyer & Partners ("Pearl Meyer") as its compensation consultant for fiscal year 2017. Pearl Meyer is independent from Cypress, has not provided any services to Cypress other than to the Compensation Committee, and receives compensation from Cypress only for services provided to the Compensation Committee. The Compensation Committee typically asks Pearl Meyer to attend its regular meetings, including executive sessions at which management is not present. The Compensation Committee worked directly with Pearl Meyer to develop compensation recommendations for Cypress's NEOs.

The Role of Management

The CEO also makes recommendations to the Compensation Committee about the compensation of the other NEOs based on their achievement of quarterly, annual and multi-year objectives. While the Compensation Committee is solely responsible for approving executive compensation, the human resources executive, the chief legal officer and the CEO support the work of the Compensation Committee and Pearl Meyer. The Compensation Committee meets frequently in executive session without management present. In making its compensation determinations, the Compensation Committee also annually reviews the total compensation that each NEO and other key executives are eligible to receive against the compensation levels of comparable positions of a peer group

of companies using AON / Hewitt Radford survey data and our peer group companies' proxy statements. The Compensation Committee periodically completes a review considering multi-year wealth accumulation and uses both internal and peer data.

Peer Group Companies

2017 Peer Group Companies: The Compensation Committee did not make any changes from those companies included in Cypress's 2016 peer group. Cypress's 2017 peer group companies are listed in the table below:

2017 Peer Group Companies	
Advanced Micro Devices, Inc.	Microsemi Corporation
Analog Devices, Inc.	NVIDIA Corporation
Cirrus Logic, Inc.	ON Semiconductor Corp.
Cree, Inc.	Qorvo, Inc.
Fairchild Semiconductor International, Inc.	Skyworks Solutions, Inc.
Linear Technology Corporation	Synaptics Incorporated
Maxim Integrated Products Inc.	Vishay Intertechnology Inc.
Microchip Technology Inc.	Xilinx Inc.

2018 Peer Group Companies: The Committee modified Cypress's peer group companies for fiscal year 2018 to better align the group with Cypress's revenue and market capitalization, and to account for mergers and acquisitions within the industry. The Committee selected peer companies that were publicly traded, headquartered in the United States, competed in the semiconductor industry, and were broadly similar to Cypress in their product and services offerings, revenue size and market capitalization and which Cypress competed with for talent. Cypress's compensation consultant provided additional analysis and recommendations regarding Cypress's peer group. The Committee removed Analog Devices, Inc., Fairchild Semiconductor International, Inc., Linear Technology Corporation, NVIDIA Corporation, Vishay Intertechnology Inc. and Xilinx Inc. from Cypress's 2018 peer group due to a variety of factors, including industry consolidation and a disparate market capitalization. The Committee added Integrated Device Technology, Inc., Marvell Technology Group Ltd. and Silicon Laboratories, Inc. to Cypress's 2018 peer group based on the factors described above. Cypress's 2018 peer group companies are listed in the table below:

2018 Peer Group Companies	
Advanced Micro Devices, Inc.	Microsemi Corporation
Cirrus Logic, Inc.	ON Semiconductor Corp.
Cree, Inc.	Qorvo, Inc.
Integrated Device Technology, Inc.	Silicon Laboratories, Inc.
Marvell Technology Group Ltd.	Skyworks Solutions, Inc.
Maxim Integrated Products Inc.	Synaptics Incorporated
Microchip Technology Inc.	

Elements of Compensation

The components of Cypress's executive compensation program are: (i) base salary; (ii) service-based equity awards; (iii) performance-based compensation, consisting of variable and at-risk incentive cash compensation and equity awards; and (iv) limited benefit programs, such as Cypress's deferred compensation plans. Cypress offers standard

health benefits and an employee stock purchase program to all employees. Cypress does not offer any material perquisites to its NEOs and does not allow them to pledge Cypress stock.

Compensation	Objectives	Key Features
Base Salary	Provides a fixed level of compensation to reward demonstrated experience, skills and competencies relative to the market value of the job.	<p>Targeted at the 50th percentile of Cypress’s peer group on average, but actual base salary of the NEOs to similar positions at peer group companies varies based on each NEO’s skills, experience and other factors.</p> <p>Adjustments are considered annually based on individual performance, level of pay relative to the market, and internal pay equity.</p>
Cypress Incentive Plan (CIP) ¹	<p>Rewards achievement of strategic corporate objectives and individual milestones using a balanced scorecard.</p> <p>Aligns NEOs interests with those of stockholders by providing awards tied to performance based on revenue, profit before tax % (PBT), and individual goal achievement.</p>	<p>Targeted at the 50th percentile of Cypress’s peer group; 100% at-risk based on company and individual performance.</p> <p>Cypress’s CEO is eligible to earn a target cash incentive of 125% of his base salary (increased to 140%, effective in June 2018), and all other NEOs are eligible to earn a target cash incentive of 70% of their respective base salaries. Prior to his resignation, the Executive Chairman was also eligible to earn a target cash incentive of 125% of his base salary.</p> <p>The CIP bonus is partially based on Cypress meeting revenue and pre-bonus profit before tax % (PBT) objectives.</p>
Restricted Stock Units (RSUs)	Provides an opportunity for wealth creation and ownership, promoting retention and enabling us to attract, motivate and retain Cypress’s NEOs.	Service-based equity operating under the Performance Accelerated Restricted Stock (“PARS”) program, and beginning in 2018, the Long Term Incentive program. The grants comprised approximately 45% of the total PARS grant in fiscal year 2017, vesting over a period of two to three years from the date of grant. Annual grants are based on individual performance, level of pay relative to the market, and internal pay equity.

Compensation	Objectives	Key Features
<p>Performance Stock Units (PSUs)</p>	<p>Aligns NEOs' interests with stockholder interests by linking part of each NEOs compensation to long-term corporate performance.</p>	<p>Designed to provide total direct compensation (base + annual incentive + equity awards) at approximately the 50th percentile of Cypress's peer group's total direct compensation in years when performance meets stated objectives, but can be higher or lower depending on the performance in that year.</p> <p>Performance-based equity awards granted in fiscal year 2017 were contingent on the following performance milestones and equaled approximately 55% of the total PARS grant:</p> <ul style="list-style-type: none"> • Debt Leverage • Profit Before Tax • Strategic Initiatives • Gross Margin • Revenue Growth <p>Performance-based equity awards granted in fiscal year 2016 were contingent on the following performance milestones: Gross Margin and New Product milestones. Performance-based equity awards granted in fiscal year 2015 were contingent on the following performance milestones: Total Shareholder Return, Synergy savings and Earnings Per Shares milestones.</p> <p>The Compensation Committee may apply negative discretion to these grants.</p> <p>For a detailed explanation of the PARS calculation, please see the section entitled "<i>Performance-Based Equity Compensation—2017 Multi-Year Performance Accelerated Restricted Stock Program (PARS)</i>."</p> <p>Beginning in 2018, PSUs are granted to our NEOs under the Long Term Incentive program.</p>
<p>Non-Qualified Deferred Compensation</p>	<p>Provides retirement savings in a tax-efficient manner.</p>	<p>NEOs can elect to defer up to 75% of their base salaries or 100% of their annual incentive cash payments, if any cash incentives are paid.</p> <p>Balances in the deferred compensation plans are unfunded obligations and at risk.</p> <p>Investment returns on balances are linked to the returns on mutual funds and other publicly-traded securities and do not generate any above market or preferential returns. Cypress does not guarantee any return or provide any matching contributions.</p>
<p>Other Compensation/ Benefits²</p>		<p>Cypress does not provide any material perquisites to its NEOs and limits all other compensation to its NEOs.</p>

1. In fiscal year 2017, the Compensation Committee approved the following CIP program. There are five payments in the CIP, one for each quarter and one annual payment; each of these five payments is worth 20% of each of our NEO's target CIP bonus. Payments under the CIP are calculated as follows:

$$\text{Base Salary} \times \text{Incentive Target} \times 20\% \times \text{Funding \%} \times \text{Individual Goal Achievement \%}$$

Incentive Target—the Incentive Target was based on each employee's position within the Company. The Incentive Target for our CEO was 125% and was 70% for all of our other NEOs.

Funding %—the Funding % for fiscal year 2017 was comprised of a two-dimensional matrix of revenue and profit before tax %, as measured each quarter and for the year.

Individual Goal Achievement %—The final element of the CIP in fiscal year 2017 was the achievement of individual milestones, which were measurable quarterly and on an annual basis. The individual milestones were identified by NEOs and reviewed, modified as appropriate, and approved in advance by the CEO. The milestones varied by person and were a mix of short- and long-term goals that were focused on factors critical to the success of Cypress, including financial, market share, new customer, new product and operational initiatives. The milestones for each period were scored on a scale of 0% to 100%, with each milestone weighted by a specific point value based on its importance to Cypress and/or its level of difficulty. Specific scoring parameters that were used to determine whether the milestone had been achieved were also identified in advance in writing. At the end of each fiscal quarter, or fiscal year, as applicable, the NEOs "scored" their milestones based on the scoring parameters previously established. Their scores were reviewed, adjusted if necessary, and approved by the CEO.

2. Other Compensation/Benefits

Non-Qualified Deferred Compensation—Cypress maintains unfunded, non-qualified deferred compensation plans. The plans allow eligible participants, including NEOs, to voluntarily defer receipt of a percentage of up to 75% of their base salary or 100% of their cash bonus payment, as the case may be, until the date or dates elected by the participants, thereby allowing the participating employees to defer taxation on such amounts. There are two non-qualified deferred compensation plans available, one of which pays a death benefit equal to two times participant contributions; the two plans are otherwise identical. All eligible employees have the option to choose one plan in which they participate. Please refer to the table entitled "*Non-Qualified Deferred Compensation*" in the section entitled "*Executive Compensation Tables*" for employee contributions and performance under this benefit plan in fiscal year 2017.

Other Compensation Limited—Cypress limits all other compensation to its NEOs. For example, Cypress does not provide a defined benefit pension plan or any other material perquisites. In addition, directors and NEOs are not permitted to pledge or hedge Cypress stock.

Cypress 2017 Executive Compensation

Fixed Compensation—Base Salary

Cypress targets the NEOs' base salaries at approximately the 50th percentile of base salaries for similar positions and experience level in its peer group of companies. In fiscal year 2017, as part of its annual review of executive compensation, the Compensation Committee reviewed the base salaries of our NEOs, focusing on the competitiveness of salaries. The Compensation Committee increased the annual base salary of Mr. Trent to \$400,000 based on a review of his job compared to the peer group of companies and his performance. Ms. Tondreau and Messrs. Geha and Gopalswamy also received an increase in their annual base salaries; such increases were made prior to their appointment as executive officers in November 2017.

Below is a summary of the salary of our NEOs for fiscal year 2017:

Named Executive Officer	2017 Base Salary	% Increase from 2016
Hassane El-Khoury	\$650,000	0%
Thad Trent	\$400,000	12.5%
Sam Geha	\$340,000	12%
Sudhir Gopalswamy	\$340,000	18%
Pamela Tondreau	\$360,000	7%
H. Raymond Bingham ¹	\$390,000	0%

- The amount disclosed in the table above is annualized base salary compensation for Mr. Bingham. From January 2017 through his resignation date in June 2017, Mr. Bingham received total base salary compensation of \$189,000.

Performance-Based Incentive Cash Compensation

The Cypress Incentive Plan (CIP) rewards achievement of strategic corporate objectives and individual milestones using a balanced scorecard. Furthermore, it aligns NEOs interests with those of stockholders by providing awards tied to performance based on revenue, profit before tax % (PBT) and individual performance goals. In fiscal year 2017, the Compensation Committee approved the applicable elements of the CIP program. There are five payments in the CIP, one for each quarter and one annual payment; each of these five payments constitutes 20% of each of the NEO's target CIP bonus. Payments under the CIP are calculated as follows:

$$\text{Base Salary} \times \text{Incentive Target} \times 20\% \times \text{Funding \%} \times \text{Individual Goal Achievement \%}$$

The Incentive Target for our CEO (and, prior to his resignation, our Executive Chairman) was 125% and was 70% for all of our other NEOs. The Funding % for fiscal year 2017 was comprised of a two-dimensional matrix of revenue and PBT. The final element of the CIP in fiscal year 2017 was the achievement of individual milestones, which were measurable quarterly and on an annual basis. The individual milestones were identified by NEOs and reviewed, modified as appropriate, and approved in advance by the CEO. The milestones varied by person and were a mix of short- and long-term goals that were focused on factors critical to the success of Cypress, including financial, market share, new customer, new product and operational initiatives. The milestones for each period were scored on a scale of 0% to 100%, with each milestone weighted by a specific point value based on its importance to Cypress and/or its level of difficulty. Specific scoring parameters that were used to determine whether the milestone had been achieved were also identified in advance in writing. At the end of each fiscal quarter, or fiscal year, as applicable, the NEOs "scored" their milestones based on the scoring parameters previously established. Their scores were reviewed, adjusted if necessary, and approved by the CEO.

Performance-Based Equity Compensation

2017 Multi-Year Performance Accelerated Restricted Stock Program (PARS)

On March 16, 2017, the Compensation Committee approved the 2017 multi-year PARS program, in which our NEOs participate. In connection with the approval of the 2017 multi-year PARS program, the Compensation Committee set the milestones under which the NEOs are eligible to earn their PARS shares, with approximately 55% based on performance milestones and approximately 45% based on service milestones. There are six components to the grants under the 2017 multi-year PARS program: (i) Debt Leverage Milestone, (ii) Profit Before Tax Milestone, (iii) Strategic Initiatives Milestone, (iv) Gross Margin Milestone, (v) Revenue Growth Milestone, and (vi) Service-Based Milestone. For the performance-based components of the PARS grants (debt leverage, profit before tax, strategic initiatives, gross margin and revenue growth), a participant is eligible to receive performance-based shares if he or she satisfies the applicable vesting and performance criteria approved by the Compensation Committee and may receive up to 200% of the performance target depending on the level of performance achieved. For the service-based component of the PARS grants, a participant is eligible to earn 100% of his or her targeted service-based shares if he or she remains an employee in good standing of the Company through the applicable vesting date.

The table below shows the number of shares underlying the awards pertaining to each component. For the performance-based components of the PARS grant, the amounts shown below are the target amount.

PARS Participant	Service Based ¹	Debt Leverage	Profit Before Tax	Strategic Initiatives	Gross Margin	Revenue Growth	Total
Hassane El-Khoury	158,577	31,710	47,565	15,855	31,710	63,420	348,837
Thad Trent	57,507	11,499	17,248	5,749	11,499	22,998	126,500
Sam Geha	52,276	10,454	15,681	5,227	10,454	20,908	115,000
Sudhir Gopalswamy	52,276	10,454	15,681	5,227	10,454	20,908	115,000
Pamela Tondreau	47,052	9,408	14,112	4,704	9,408	18,816	103,500
H. Raymond Bingham ²	—	—	—	—	—	—	—

- Two-thirds of the service-based awards are scheduled to vest on February 1, 2019 (nearly two years following the grant date) and the remaining one-third are scheduled to vest on February 3, 2020 (nearly three years following the grant date).
- As contemplated in his employment agreement, Mr. Bingham received a grant of 232,558 service-based RSUs in March 2017, vesting quarterly in equal installments over a period of three years from the date of grant. Any unvested portion of such award was forfeited in connection with his resignation in June 2017.

The 2017 multi-year PARS program complements the 2015 and 2016 multi-year PARS programs, which include grants with various performance-based milestones, including achievement of total stockholder return, synergy, earnings per share, new product and gross margin milestones.

The grants made for each of the six components of the multi-year PARS program granted in fiscal year 2017 are subject to vesting over a one, two or three-year period, as illustrated by the table below, subject to achievement of applicable performance goals, as applicable:

Milestone	% of Total Grant Scheduled to Vest in Fiscal Year 2017	% of Total Grant Scheduled to Vest in Fiscal Year 2018	% of Total Grant Scheduled to Vest in Fiscal Year 2019	Total
Service-Based	—	30.3%	15.2%	45.5%
Debt Leverage	9.1%	—	—	9.1%
Profit Before Tax	4.5%	—	9.1%	13.6%
Strategic Initiatives	4.5%	—	—	4.5%
Gross Margin	—	9.1%	—	9.1%
Revenue Growth	—	9.1%	9.1%	18.2%
Total	18.1%	48.5%	33.4%	100%

The milestones for each grant component and the actual percent achieved in fiscal year 2017 were as follows:

(1) Service-Based Milestone

Service-based RSUs vest over a two and three-year period if the NEO remains an employee in good standing of Cypress and is in a similar role, same or higher pay grade and same or increased scope of responsibilities as the NEO's role on the grant date. **No service-based RSUs were earned in fiscal year 2017.**

(2) Debt Leverage Milestone

2017 Performance Results: 9% of the PARS granted in fiscal year 2017 and earnable in fiscal year 2017 were contingent on the Company's achievement of the Debt Leverage Milestone. The Company's threshold debt to

annualized EBITDA for fiscal year 2017 was 3.5X and target was 3X. Cypress's debt leverage for fiscal year 2017 was 1.9X and, as a result, **200% of the Debt Leverage Milestone shares were earned.**

(3) Profit Before Tax Milestone

Company-specific PBT performance goals have been defined for fiscal years 2017 and 2019. Cypress must achieve a threshold level of PBT before any NEO will earn any performance stock units (PSUs) for this milestone. If PBT goals are achieved at target levels, NEOs will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for PBT performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the PBT performance goals is 200% of target.

2017 Performance Results: 4.5% of the PARS granted in fiscal year 2017 and earnable in fiscal year 2017 were contingent on the Company's achievement of the Profit Before Tax Milestone. The Company's threshold profit before tax for fiscal year 2017 was \$202.5 million and target was \$253.1 million. Cypress's PBT for fiscal year 2017 was \$335.3 million and, as a result, **200% of the Profit Before Tax Milestone shares were earned.**

(4) Strategic Initiatives Milestone

The Strategic Initiatives Milestone was established in connection with Cypress's 3.0 strategy. Threshold, target and maximum performance metrics were established for the Strategic Initiatives Milestone.

2017 Performance Results: The Company met the target required for the Strategic Initiatives Milestone. Therefore, **100% of the shares were earned in consideration of the Strategic Initiatives Milestone.**

(5) Gross Margin Milestone

Cypress must achieve a threshold level of Gross Margin performance before any NEO will earn any PSUs for this milestone. If Gross Margin goals are achieved at target levels, NEOs will have the potential to earn the target number of PSUs for meeting this milestone. The number of PSUs earned will be linearly interpolated for Gross Margin performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the Gross Margin performance goals is 200% of target.

2017 Performance Results: The Gross Margin milestone is not applicable to fiscal year 2017. Therefore, **no gross margin PSUs were earned for fiscal year 2017.**

(6) Revenue Growth Milestone

Company-specific revenue growth goals have been defined for each of fiscal years 2018 and 2019. Similar to the other performance-based milestones, Cypress must achieve a threshold level of revenue growth as measured against the semiconductor industry before any NEO will earn any PSUs. If the Revenue Growth Milestones are achieved at target levels, executives will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for revenue growth performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the Revenue Growth Milestone is 200% of target.

2017 Performance Results: The Revenue Growth milestone is not applicable to fiscal year 2017. Therefore, **no revenue growth PSUs were earned for fiscal year 2017.**

2016 Multi-Year Performance Accelerated Restricted Stock Program (PARS)

The NEOs were also eligible to earn the following shares under the 2016 multi-year PARS program for fiscal year 2017:

PARS Participant	Service Based	Gross Margin Milestone	New Product Milestone	TSR Milestone	Synergy Milestone	EPS Milestone	Total Grant
Hassane El-Khoury	33,000	5,500	5,500	—	—	—	44,000
Thad Trent	27,000	4,500	4,500	—	—	—	36,000
Sam Geha	45,412	4,819	4,819	9,906	6,605	3,302	74,863
Sudhir Gopalswamy	42,929	4,261	4,261	10,424	6,950	3,475	72,300
Pamela Tondreau	39,543	3,992	3,992	9,362	6,241	3,120	66,250
H. Raymond Bingham ¹	—	—	—	—	—	—	—

- Mr. Bingham was not a participant in the 2016 PARS program. In connection with his promotion to Executive Chairman, Mr. Bingham received a grant of 132,508 service-based RSUs in August 2016, vesting quarterly in equal installments over a period of three years from the date of grant. Any unvested portion of such award was forfeited in connection with his resignation in June 2017.

The milestones for each grant component and the actual percent achieved in fiscal year 2017 were as follows:

(1) Service-Based Milestone

Service-based RSUs vest over a two-year period if the NEO remains an employee in good standing of Cypress and is in a similar role, same or higher pay grade and same or increased scope of responsibilities as the NEO's role on the grant date. **Service-based RSUs were earned in fiscal year 2017.**

(2) Gross Margin Milestone

Cypress must achieve a threshold level of Gross Margin performance before any NEO will earn any PSUs for this milestone. If Gross Margin goals are achieved at target levels, NEOs will have the potential to earn the target number of PSUs for meeting this milestone. The number of PSUs earned will be linearly interpolated for Gross Margin performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the Gross Margin performance goals is 200% of target.

2017 Performance Results: The Company's threshold gross margin for fiscal year 2017 was 39.4% and target was 42%. Cypress's gross margin for fiscal year 2017 was 42.2% and, as a result, **108% of the Gross Margin Milestone shares were earned.**

(3) New Product Milestone

Aggressive development and production milestones were established for fiscal years 2016 and 2017 for the next generation programmable system on chip (PSoC). Cypress must reach a threshold level of PSoC development or production milestones before any NEO will earn any PSUs for this milestone. If development or production milestones are achieved at target levels, executives will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for development or production milestones achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the PSoC development or production milestones is 200% of target.

2017 Performance Results: The Company did not meet the development and production milestones at threshold levels and, as a result, **none of the New Product Milestone shares were earned.**

(4) TSR Milestones

TSR was measured relative to the applicable peer group for each of fiscal years 2016 and 2017.

In each performance period, Cypress's TSR must be above the 25th percentile of the applicable peer group before any NEO will earn any PSUs. If Cypress's TSR is at the 65th percentile of the applicable peer group, our NEOs will have the potential to earn the target number of PSUs. If Cypress's TSR is at the 90th percentile or higher, our

NEOs will have the potential to earn the maximum number of PSUs, which is 200% of target. The number of PSUs earned will be linearly interpolated between the indicated performance levels.

2017 Performance Results: The combined Cypress's TSR milestones were achieved between target and maximum and, as a result, **109% of the TSR Milestone shares were earned.**

(5) Synergy Milestones

Company-specific synergy (cost savings related to the Spansion merger) performance goals were defined for each of fiscal years 2016 and 2017. Synergy achievement will be reported with Cypress's financial results for the respective periods. Similar to the other performance-based milestones, Cypress must achieve a threshold level of synergy performance before any NEO will earn any PSUs for this milestone. If synergy goals are achieved at target levels, our NEOs will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for synergy performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the synergy performance goals is 200% of target. The performance goals were based on the annualized cost savings as of the end of the fourth quarter of each year given the incremental quarterly improvement anticipated to achieve our overall synergy goals. As announced at the time of the merger, the company's objective was to achieve \$135 million in cost savings within three years.

2017 Performance Results: The Company generated annualized synergy savings of \$220.9 million for fiscal year 2017, **earning a payout at 164% of target.**

(6) EPS Milestones

Company-specific EPS performance goals were defined for each of fiscal years 2016 and 2017. Similar to the other performance-based milestones, Cypress must achieve a threshold level of non-GAAP EPS performance before any NEO will earn any PSUs for this milestone. If non-GAAP EPS goals are achieved at target levels, executives will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for non-GAAP EPS performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the non-GAAP EPS performance goals is 200% of target.

For purposes of calculating non-GAAP EPS performance, the Company divides its non-GAAP earnings by the diluted weighted average shares outstanding (which share number is adjusted to exclude the benefits related to share-based compensation expense, but to include the impact of certain capped call transactions related to convertible notes previously issued by the Company).

2017 Performance Results: For fiscal year 2017, the Company achieved 0% of the minimum required non-GAAP EPS and, as a result, **none of the EPS Milestone shares were earned.**

2015 Multi-Year Performance Accelerated Restricted Stock Program (PARS)

The NEOs were also eligible to earn the following shares under the 2015 multi-year PARS program for fiscal year 2017:

PARS Participant	Service Based	TSR Milestone	Synergy Milestone	EPS Milestone	Total Grant
Hassane El-Khoury	30,000	18,000	12,000	6,000	66,000
Thad Trent	30,000	18,000	12,000	6,000	66,000
Sam Geha	2,335	1,401	934	467	5,137
Sudhir Gopalswamy	3,500	2,100	1,400	700	7,700
Pamela Tondreau	6,250	3,750	2,500	1,250	13,750
H. Raymond Bingham ¹	—	—	—	—	—

1. Mr. Bingham was not a participant in the 2015 PARS program.

The milestones for each grant component and the actual percent achieved in fiscal year 2017 were as follows:

(1) Service-Based Milestones

Service-based RSUs vest over a one-, two- and three-year period if the NEO remains an employee in good standing of Cypress and is in a similar role, same or higher pay grade and same or increased scope of responsibilities as the NEO's role on the grant date. **Service-based RSUs were earned in fiscal year 2017.**

(2) TSR Milestones

TSR was measured relative to the applicable peer group for each of fiscal years 2015, 2016 and 2017. A series of one-, two- and three-year periods was used to phase-in the awards.

In each performance period, Cypress's TSR must be above the 25th percentile of the applicable peer group before any NEO will earn any PSUs for this milestone. If Cypress's TSR is at the 65th percentile of the applicable peer group, our NEOs will have the potential to earn the target number of PSUs. If Cypress's TSR is at the 90th percentile or higher, our NEOs will have the potential to earn the maximum number of PSUs, which is 200% of target. The number of PSUs earned will be linearly interpolated between the indicated performance levels.

2017 Performance Results: The combined Cypress's TSR milestones were achieved between threshold and target and, as a result, **72.7% of the TSR Milestone shares were earned.**

(3) Synergy Milestones

Company-specific synergy (cost savings related to the Spansion merger) performance goals were defined for each of fiscal years 2015, 2016 and 2017. Synergy achievement will be reported with Cypress's financial results for the respective periods. Similar to the TSR milestones, Cypress must achieve a threshold level of synergy performance before any NEO will earn any PSUs for this milestone. If synergy goals are achieved at target levels, our NEOs will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for synergy performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the synergy performance goals is 200% of target. The performance goals were based on the annualized cost savings as of the end of the fourth quarter of each year given the incremental quarterly improvement anticipated to achieve our overall synergy goals. As announced at the time of the merger, the company's objective was to achieve \$135 million in cost savings within three years.

2017 Performance Results: The Company generated annualized synergy savings of \$220.9 million for fiscal year 2017, **earning a payout at 164% of target.**

(4) EPS Milestones

Company-specific EPS performance goals were defined for each of fiscal years 2015, 2016 and 2017. Similar to the TSR and Synergy Milestones, Cypress must achieve a threshold level of non-GAAP EPS performance before any NEO will earn any PSUs for this milestone. If non-GAAP EPS goals are achieved at target levels, executives will have the potential to earn the targeted number of PSUs. The number of PSUs earned will be linearly interpolated for non-GAAP EPS performance achieved between threshold and target, and target to maximum. The maximum number of PSUs which may be earned for the non-GAAP EPS performance goals is 200% of target.

For purposes of calculating non-GAAP EPS performance, the Company divides its non-GAAP earnings by the diluted weighted average shares outstanding (which share number is adjusted to exclude the benefits related to share-based compensation expense, but to include the impact of certain capped call transactions related to convertible notes previously issued by the Company).

2017 Performance Results: For fiscal year 2017, the Company achieved 0% of the minimum required non-GAAP EPS and, as a result, **none of the EPS Milestone shares were earned.**

Risk Considerations

The Compensation Committee regularly considers the risks associated with Cypress's compensation policies and practices for employees, including those related to executive compensation programs. As part of the risk assessment, the Compensation Committee reviews Cypress's compensation programs to avoid certain design features that have the potential to encourage excessive risk-taking.

Material risk in our compensation program design is mitigated in several ways, including:

- we have an appropriate mix of pay elements, with compensation well-balanced between fixed and variable elements, and short- and long-term incentives;
- base salaries are intended to constitute a sufficient component of total compensation to discourage undue risk taking in order to meet incentive goals;
- incentive plans are designed with goals that are intended to result in long-term value to our stockholders;
- financial and earnings goals and opportunities in our incentive programs are at levels intended to be attainable without the need to take inappropriate risks;
- bonus and incentive opportunities are capped so that the upside potential is not so large as to encourage undue risk taking;
- the majority of our equity incentives vest or are earned over a multi-year period, which requires the executive to bear the economic risk of the award over the vesting or performance period;
- our incentive plans define a range of performance over which payouts may be earned, including at levels below target achievement, rather than an “all-or-nothing” approach;
- we generally use different performance measures in different incentive programs, which provides balance and reduces the potential for taking undue risks to meet a single goal;
- the stock components of our long-term incentive program, combined with our stock ownership guidelines, align the interests of our executives with long-term preservation and appreciation of stockholder value;
- incentive payments and awards are subject to clawback in the event of a material restatement of our financial results; and
- the Compensation Committee considers information from peer companies in evaluating compensation levels and incentive plan designs, thereby avoiding unusually high pay opportunities relative to the Company’s peers.

The Compensation Committee has reviewed compensation related risks and does not believe Cypress’s compensation programs encourage excessive or inappropriate risk taking or create risks that are reasonably likely to have a material adverse effect on Cypress. In fulfilling its responsibilities, the Compensation Committee may, to the extent permitted under applicable law, the Nasdaq Listing Rules, the rules of the Securities and Exchange Commission (the “SEC”) and the Internal Revenue Code, and Cypress’s certificate of incorporation and bylaws, delegate any or all of its responsibilities to a subcommittee. The Compensation Committee, with the assistance of Pearl Meyer, intends to continue, on an on-going basis, a process of thoroughly reviewing Cypress’s compensation policies and programs to ensure that its compensation programs and risk mitigation strategies continue to discourage imprudent risk-taking activities.

In discharging its duties, the Compensation Committee selects and 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, peer group 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 Cypress. In fiscal year 2017, the Compensation Committee retained the services of Pearl Meyer for various compensation-related services.

Stock Ownership Requirements

The table below summarizes the stock ownership policy and status among our directors and NEOs as of March 14, 2018.

	Stock Ownership Requirement	Shares Actually Held
Chief Executive Officer	6X base compensation	8.5X base compensation
All Other Named Executive Officers	4X base compensation	3.5X - 11.4X base compensation
Non-Employee Directors	5X annual cash retainer	0X - 68.2X annual cash retainer ¹

- The 0X amount refers to the stock ownership of Mr. Owens and Ms. Sargent, each of whom was recently appointed to the Board

As a result of the above requirements, our directors and NEOs will continue to receive (and hold) a substantial amount of their Cypress compensation in shares of Cypress common stock, and maintain an even stronger alignment with the Company and our stockholders. All executives and directors are in compliance or expect to be in compliance within the required timeframe.

Named Executive Officers

Our CEO is required to own Company common stock having a value of at least six times his annual base salary. Common stock only includes shares directly owned and does not include any granted stock option awards, even if vested and in the money. Our NEOs, excluding our CEO, are required to own Company common stock having a value of at least four times their annual base salary. Individuals have three years to meet the stock ownership requirement. If the stock ownership requirement is not met after three years, then the NEO must hold all future shares that vest (net of taxes) until the stock ownership requirement is met.

Directors

Our non-employee directors are required to own a number of shares of Company common stock equal to five times the annual cash retainer for non-employee directors (currently \$50,000). New non-employee directors are required to meet the requirement within five years of their appointment or initial election to the Board.

Anti-Pledging Policy

Cypress adopted and formalized a written pledging policy in fiscal year 2014 and the Compensation Committee approved modifications to the policy on February 15, 2017. As of February 15, 2017, directors and NEOs are no longer permitted to pledge Cypress stock.

No NEO currently employed by the Company holds Cypress securities that are pledged pursuant to a margin account or loan or otherwise.

Employment Agreements and Severance Arrangements***Severance Policy***

The Compensation Committee approved a severance policy (the “Policy”) applicable to certain of its officers on May 26, 2016. The Policy applied to all of our NEOs, excluding Messrs. Bingham and El-Khoury. The Policy expired on August 10, 2017, which is twelve months after the date Mr. El-Khoury was appointed as President and Chief Executive Officer.

Change of Control Severance Agreements

Cypress entered into Change of Control Severance Agreements (each an “Agreement”) with certain of its officers (each, a “Covered Officer”) in fiscal year 2016; these Agreements contain double-trigger provisions regarding an executive’s termination of employment following a change in control. All of our NEOs, excluding Mr. Bingham (who is no longer employed by the Company) and Mr. El-Khoury (whose Agreement has been superseded by his employment agreement), are Covered Officers and have entered into an Agreement with Cypress. Pursuant to the Agreement, if the Company or any successor terminates the employment of a Covered Officer other than for “Cause” (as defined in the Agreement), death or Disability (as defined in the Agreement), or a NEO terminates his or her employment for “Good Reason” (as defined in the Agreement) during the period beginning three months

prior to, and ending twelve months after, the occurrence of a Change of Control (as defined in the Agreement), the Covered Officer will be entitled to receive the following compensation and benefits, subject to the Covered Officer signing and not revoking a standard release of claims in a form reasonably acceptable to the Company (the “Release”) no later than 60 days following the Covered Officer’s termination of employment:

- Lump sum severance payment equal to 14 months of annual base salary plus 14 months of the Covered Officer’s annual target bonus.
- Accelerated vesting of all outstanding unvested equity-based compensation awards held by the Covered Officer.
- Lump sum payment equal to 14 months of COBRA premiums for the Covered Officer and any eligible spouse and/or dependents.

Severance payments under the Agreement are to be paid the first business day after the Release becomes effective, subject to a delay of up to six months as necessary in order to comply with Section 409A of the Internal Revenue Code. The initial term of the Agreement is two years from the date the Agreement became effective, which for our NEOs was May 26, 2016 (the “Initial Term”) and on each one year anniversary thereafter it will renew automatically for additional one year terms (each, an “Additional Term”) unless either party provides written notice of non-renewal to the other party. If a Change of Control occurs when there are fewer than twelve months remaining in the Initial Term, or during an Additional Term, the term of the Agreement will automatically extend through the date that is twelve months following the date of the Change of Control. Executives may not receive benefits under both the Severance Policy and the Change of Control Severance Agreements.

Chief Executive Officer Employment Agreement

Cypress entered into an at-will employment agreement with Mr. El-Khoury on November 30, 2016. Mr. El-Khoury’s employment agreement provides for a minimum base salary of \$650,000 and \$2.5 million worth of service-based RSUs (which grant was made upon Mr. El-Khoury’s promotion in August 2016), scheduled to vest quarterly in equal installments over three years. His employment agreement also provides for an additional equity grant valued at \$4.5 million, which was granted in the first quarter of fiscal year 2017. In the event Mr. El-Khoury is terminated without cause or voluntarily resigns with good reason (in each case, as defined in the employment agreement), he is entitled to the following severance benefits:

- Lump sum severance payment equal to 24 months of annual base salary plus 24 months of his annual target bonus.
- Accelerated vesting of all outstanding unvested equity-based compensation awards and a period of 12 months to exercise such awards.
- Payment of benefits (health, dental, vision, EAP) premiums for a period of 24 months, covering Mr. El-Khoury and his dependents.

Former Executive Chairman Employment Agreement

Cypress entered into an at-will employment agreement with Mr. Bingham on November 7, 2016. Mr. Bingham’s employment agreement provided for a minimum base salary of \$390,000 per year and \$1.5 million worth of service-based RSUs (which grant was made upon Mr. Bingham’s promotion in August 2016), which was scheduled to vest quarterly in equal installments over three years. His employment agreement also provided for an additional equity grant valued at \$3.0 million, which was granted in the first quarter of fiscal year 2017. Mr. Bingham resigned from his position as Executive Chairman in June 2017. The terms of his separation are summarized below in the “Potential Payments Upon Termination or Change in Control” Section of this Proxy Statement.

Clawback Policy

Cypress’s clawback policy requires the return of performance-based compensation payments to Cypress (i) by any executive engaged in (a) fraud, theft, misappropriation, embezzlement or dishonesty, or (b) intentional misconduct related to Cypress’s financial reporting, or (ii) in the event of a material negative revision of any financial or operating measure on which performance-based compensation was paid out to such executive.

Cypress 2018 Compensation Actions

2018 Base Salary

In February 2018, the Compensation Committee approved the following annual base salaries for our NEOs, which salaries are effective June 4, 2018: Mr. El-Khoury \$700,000, Mr. Trent \$435,000, Mr. Geha \$350,000, Mr. Gopalswamy \$354,000, and Ms. Tondreau \$385,000. These adjustments were based on a review of each NEO's job compared to our peer group of companies and each NEO's performance.

Peer Group Companies

The Compensation Committee modified Cypress's peer group companies for fiscal year 2018 to better align the group with Cypress's revenue and market capitalization, and to account for mergers and acquisitions within the industry. The Compensation Committee selected peer companies that were publicly traded, headquartered in the United States, competed in the semiconductor industry, and were broadly similar to Cypress in their product and services offerings, revenue size and market capitalization and which Cypress competed with for talent. Cypress's compensation consultant provided additional analysis and recommendations regarding Cypress's peer group. The Compensation Committee removed Analog Devices, Inc., Fairchild Semiconductor International, Inc., Linear Technology Corporation, NVIDIA Corporation, Vishay Intertechnology Inc. and Xilinx Inc. from Cypress's 2018 peer group due to a variety of factors, including industry consolidation and a disparate market capitalization. The Compensation Committee added Integrated Device Technology, Inc., Marvell Technology Group Ltd. and Silicon Laboratories, Inc. to Cypress's 2018 peer group based on the factors described above. Cypress's 2018 peer group companies are listed in the table below:

2018 Peer Group Companies	
Advanced Micro Devices, Inc.	Microsemi Corporation
Cirrus Logic, Inc.	ON Semiconductor Corp.
Cree, Inc.	Qorvo, Inc.
Integrated Device Technology, Inc.	Silicon Laboratories, Inc.
Marvell Technology Group Ltd.	Skyworks Solutions, Inc.
Maxim Integrated Products Inc.	Synaptics Incorporated
Microchip Technology Inc.	

2018 Cypress Incentive Plan Program

For fiscal year 2018, the Compensation Committee approved the following parameters for the CIP:

Calculation of CIP—There are five payments in the CIP, one for each quarter and one annual payment; each of these five payments constitutes 20% of each of our NEO's target CIP bonus. Payments under the CIP are calculated as follows:

$$\text{Base Salary} \times \text{Incentive Target} \times 20\% \times \text{Funding \%} \times \text{Individual Goal Achievement \%}$$

Incentive Target—the Incentive Target is based on each employee's position within the Company. The Incentive Target for our CEO is 125% (increased to 140%, effective in June 2018) and is 70% for all of our other NEOs.

Funding %—the Funding % for fiscal year 2018 was comprised of a two dimensional matrix of revenue and profit before tax % as measured each quarter and for the year.

Individual Goal Achievement %—The final element of the CIP for fiscal year 2018 is the achievement of individual milestones, which are measurable quarterly and on an annual basis. The individual milestones were identified by NEOs and reviewed, modified as appropriate, and approved in advance by the CEO. The milestones vary by person and are a mix of short- and long-term goals that are focused on factors critical to the success of Cypress. The milestones for each period will be scored on a scale of 0% to 100%, with each milestone weighted by a specific point value based on its importance to Cypress and/or its level of difficulty. Specific scoring parameters that are used to determine whether the milestone has been achieved are also identified in advance in writing. At the end of each fiscal quarter, the NEOs will "score" their milestones based on the scoring parameters previously established. Their scores will be reviewed, adjusted if necessary, and approved by the CEO.

2018 Long Term Incentive Program

In February 2018, the Committee approved the Company's 2018 Long Term Incentive ("LTI") program. In connection with the approval of the 2018 multi-year LTI program, the Committee set the milestones under which participants are eligible to earn their shares with: approximately 70% based on performance milestones and approximately 30% based on service milestones for our CEO; and approximately 55% based on performance milestones and approximately 45% based on service milestones for our other NEOs. There are five components to the grants under the 2018 multi-year LTI program: (i) 2018 PAT Earnings Milestones, (ii) 2020 Profit Before Tax % and TSR Milestones, (iii) 2018 New Product Revenue Milestones, (iv) 2016-2020 Revenue Growth Milestones, and (v) Service Based Milestones. For the performance-based components of the LTI grants (PAT earnings, PBT % and TSR, new product revenue, and revenue growth), a participant is eligible to receive performance-based shares if he or she satisfies the applicable vesting and performance criteria approved by the Committee and may receive up to 200% of the performance target depending on the level of performance achieved. For the service-based component of the LTI grants, a participant is eligible to earn 100% of his or her targeted service-based shares if he or she remains an employee in good standing of the Company and remains in his or her current role or a similar role and grade level (or is promoted to a higher role or grade level) through the applicable vesting date.

The table below shows the number of shares underlying the awards pertaining to each component. For the performance-based components of the LTI grant, the amounts shown below are the target amount.

LTI Participant	2018 PAT Earnings Milestone	2020 PBT % and TSR Milestone	2018 New Product Revenue Milestone	2016-2020 Revenue Growth Milestone	Service Based	Total Grant
Hassane El-Khoury	56,347	56,346	56,347	56,346	96,594	321,980
Thad Trent	30,684	30,684			50,210	111,578
Sam Geha	27,245	27,244			44,582	99,071
Sudhir Gopalswamy	31,842	31,842			52,105	115,789
Pamela Tondreau	26,478	26,478			43,328	96,284

The 2018 multi-year LTI program complements the 2017 multi-year PARS program, which includes grants with various performance-based milestones, including achievement of debt leverage, profit before tax, strategic initiatives, gross margin and revenue growth.

EXECUTIVE COMPENSATION TABLES

Summary Compensation Table

The following table shows compensation information for fiscal years 2017, 2016 and 2015 for our named executive officers (“NEOs”).

Name and Principal Position	Year	Salary ¹ (\$)	Bonus ² (\$)	Stock Awards ³ (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation ⁴ (\$)	All Other Compensation ⁵ (\$)	Total Compensation (\$)
Hassane El-Khoury ¹⁶ President, Chief Executive Officer and Director	2017	650,000	500	4,852,323	—	923,599	3,024	6,429,446
	2016	401,964	1,500	3,168,799	—	210,641	760	3,783,664
	2015	270,650	1,500	4,141,380	—	7,919	10,327	4,431,776
Thad Trent Executive Vice President, Finance & Administration, Chief Financial Officer	2017	398,077	—	1,759,615	—	342,239	2,760	2,502,691
	2016	350,000	—	581,200	—	92,943	983	1,025,126
	2015	350,000	—	4,570,040	—	8,865	30,155	4,959,060
Sam Geha ¹⁷ Executive Vice President, Memory Products	2017	338,631	—	1,599,650	—	269,690	2,385	2,210,356
	2016	—	—	—	—	—	—	—
	2015	—	—	—	—	—	—	—
Sudhir Gopalswamy ¹⁸ Executive Vice President, Microcontroller & Connectivity	2017	337,961	—	1,599,650	—	235,862	1,460	2,174,933
	2016	—	—	—	—	—	—	—
	2015	—	—	—	—	—	—	—
Pamela Tondreau ¹⁹ Executive Vice President, Chief Legal Officer & Human Resources	2017	359,154	—	1,439,685	—	323,882	—	2,112,721
	2016	—	—	—	—	—	—	—
	2015	—	—	—	—	—	—	—
H. Raymond Bingham ¹¹⁰ Former Executive Chairman	2017	189,000	—	3,234,882	—	92,909	—	3,516,791
	2016	138,000	—	1,499,991	—	108,584	456	1,747,031
	2015	—	—	—	—	—	—	—

1. Represents salary earned in fiscal years 2017, 2016 and 2015. Amounts disclosed in this table include amounts electively deferred by each officer, as applicable, under the Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan.
2. Mr. El-Khoury received a \$500 patent bonus in fiscal year 2017 and a \$1,500 patent bonus in fiscal years 2016 and 2015. No other NEO received any cash incentives given that it is generally against Cypress’s pay-for-performance philosophy to award discretionary cash incentives to its NEOs.
3. Amounts shown for fiscal years 2017, 2016 and 2015 do not reflect compensation actually received by each NEO. The amounts shown represent the performance stock units and restricted stock units granted, computed in accordance with FASB ASC Topic 718 (which excludes the impact of estimated forfeitures related to service-based vesting conditions). For information on the assumptions used to calculate the value of the awards for fiscal year 2017, refer to Note 9 to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ending December 31, 2017. 82% of the stock units granted in fiscal year 2017 could not be earned in fiscal year 2017. The vesting schedule for the fiscal year 2017 grant is 18% vesting in fiscal year 2018, 49% vesting in fiscal year 2019 and 33% vesting in fiscal year 2020—all vesting

is subject to meeting a combination of performance-based and service-based milestones. Following are additional details regarding the fiscal year 2017 PARS grants:

Named Executive Officer	Value of Shares Delivered in Fiscal Year 2018 on the Date of Delivery (\$)	Shares Earnable in Fiscal Year 2017	Shares Earnable in Fiscal Year 2018	Shares Earnable in Fiscal Year 2019
Hassane El-Khoury	1,938,908	63,420	169,138	116,279
Thad Trent	703,080	22,997	61,336	42,167
Sam Geha	639,210	20,908	55,759	38,333
Sudhir Gopalswamy	639,210	20,908	55,759	38,333
Pamela Tondreau	575,252	18,816	50,183	34,501
H. Raymond Bingham	—	—	—	—

For information on the assumptions used to calculate the value of the awards for fiscal year 2016, refer to Note 9 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ending January 1, 2017. 43% of the stock units granted in fiscal year 2016 could not be earned in fiscal year 2017. The vesting schedule for the fiscal year 2016 grant is 43% vesting in fiscal year 2017 and 57% vesting in fiscal year 2018—all vesting subject to meeting a combination of performance-based and service-based milestones. Following are additional details regarding the fiscal year 2016 PARS grants:

Named Executive Officer	Value of Shares Delivered in Fiscal Year 2018 on the Date of Delivery (\$)	Shares Earnable in Fiscal Year 2017
Hassane El-Khoury	669,722	44,000
Thad Trent	547,954	36,000
H. Raymond Bingham	—	—

For information on the assumptions used to calculate the value of the awards for fiscal year 2015, refer to Note 8 of our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ending January 3, 2016. 77% of the shares granted in fiscal year 2015 could not be earned in fiscal year 2017. The vesting schedule for the fiscal year 2015 grant is 43% vesting in fiscal year 2016, 34% vesting in fiscal year 2017 and 23% vesting in fiscal year 2018—all vesting subject to meeting a combination of performance-based and service-based milestones. Following are additional details regarding the fiscal year 2015 PARS grants:

Named Executive Officer	Value of Shares Delivered in Fiscal Year 2018 on the Date of Delivery (\$)	Shares Earnable in Fiscal Year 2017
Hassane El-Khoury	1,086,817	66,000
Thad Trent	1,086,817	66,000
H. Raymond Bingham	—	—

- Includes bonus amounts earned under the CIP, or one of our previous bonus plans (e.g., the Key Employee Bonus Program and Performance Bonus Plan), for services rendered in the respective fiscal years. No cash was earned under the CIP in fiscal year 2016; NEOs were granted a one-time RSU grant in lieu of the quarterly and annual CIP payout for fiscal year 2016, which fully vested on January 31, 2017.
- The amounts reported in this column include payments by the Company of term life insurance premiums for the NEOs. Cypress is not the beneficiary of the life insurance policies. NEOs participate in the same life insurance program as other Cypress employees, which pays out at one times the employee's annual base pay. Amounts shown also reflect a gross-up of an employee recognition award for Mr. El-Khoury for fiscal year 2017 of \$972 and pay in lieu of holidays and paid time off cashed out by Mr. Trent for fiscal year 2015 of \$29,667; and pay in lieu of holidays and paid time off cashed out by Mr. El-Khoury for fiscal year 2015 of \$10,089.

6. Mr. El-Khoury's annual salary was \$270,650 until he was appointed (in August 2016) as the Company's President and CEO, at which time his annual salary was adjusted to \$650,000.
7. Mr. Geha was promoted to Executive Vice President, Memory Products in February 2018. Previously, he served as the Company's Senior Vice President of the Memory Products Division.
8. Mr. Gopalswamy was promoted to Executive Vice President, Microcontroller & Connectivity in February 2018. Previously, he served as the Company's Senior Vice President of the Microcontroller & Connectivity Division.
9. Ms. Tondreau was promoted to Executive Vice President, Chief Legal Officer and Human Resources in February 2018. Previously, she served as the Company's Senior Vice President, Chief Legal Officer & Human Resources.
10. Mr. Bingham resigned from his position as Executive Chairman in June 2017.

GRANTS OF PLAN-BASED AWARDS
Fiscal Year Ended December 31, 2017

The following table shows all plan-based awards granted to our NEOs during fiscal year 2017.

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 (#) ⁶	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 (\$) ⁸
		Threshold (\$)	Target (\$) ³	Maximum (\$)	Threshold (#)	Target (#) ⁴	Maximum (#) ⁵				
Hassane El-Khoury President, Chief Executive Officer and Director	3/16/2017	—	—	—	—	190,260	380,520	158,577	—	—	4,852,323
	—	—	812,500	1,625,000	—	—	—	—	—	—	—
Thad Trent Executive Vice President, Finance and Administration, Chief Financial Officer	3/16/2017	—	—	—	—	68,993	137,986	57,507	—	—	1,759,615
	—	—	280,000	560,000	—	—	—	—	—	—	—
Sam Geha, Executive Vice President, Memory Products	3/16/2017	—	—	—	—	62,724	125,448	52,276	—	—	1,599,650
	—	—	238,000	476,000	—	—	—	—	—	—	—
Sudhir Gopalswamy, Executive Vice, President, Microcontroller & Connectivity	3/16/2017	—	—	—	—	62,724	125,448	52,276	—	—	1,599,650
	—	—	238,000	476,000	—	—	—	—	—	—	—
Pamela Tondreau, Executive Vice President, Chief Legal Officer & Human Resources	3/16/2017	—	—	—	—	56,448	112,896	47,052	—	—	1,439,685
	—	—	252,000	504,000	—	—	—	—	—	—	—
H. Raymond Bingham, Former Executive Chairman	3/16/2017	—	—	—	—	—	—	232,558 ⁷	—	—	3,234,882
	—	—	273,000	546,000	—	—	—	—	—	—	—

1. Represents potential performance compensation that could be earned under the CIP program in fiscal year 2017. The columns show the amounts that could be earned at the threshold, target and maximum levels of performance.
2. Represents the PSUs granted under our PARS program at 100% of the debt leverage, profit before tax, strategic initiatives, gross margin and revenue growth milestones in fiscal year 2017. The columns show the stock that could be earned at the threshold, target and maximum levels of performance. Please see the “*Option Exercises and Stock Vesting*” table for the actual amounts earned by our NEOs in fiscal year 2017 under the PARS program.
3. Represents the fiscal year 2017 Cypress Incentive Plan bonus at 100% of target.
4. 82 percent of the shares granted in fiscal year 2017 could not be earned in fiscal year 2017.

5. The following number of shares, related to performance-based vesting milestones, were delivered in fiscal year 2018: Mr. El-Khoury, 110,985; Mr. Trent, 40,245; Mr. Geha, 36,589; Mr. Gopalswamy, 36,589; Ms. Tondreau, 32,928; and Mr. Bingham, 0.
6. For NEOs other than Mr. Bingham, this column reflects RSUs granted under our PARS program in 2017. Two-thirds of the service-based awards are scheduled to vest in February 2019 and the remaining one-third are scheduled to vest in February 2020.
7. This time-based vesting award of RSUs was granted to Mr. Bingham pursuant to the terms of his employment agreement. The terms of the grant specified that the award would vest in quarterly installments over a period of three years from the date of grant. The award was forfeited upon Mr. Bingham's resignation.
8. Represents the target number of shares multiplied by the grant date fair value. See the "*Summary Compensation Table*" above for the value of shares actually delivered.

OUTSTANDING EQUITY AWARDS
Fiscal Year Ended December 31, 2017:

Name and Principal Position	Option Awards					Stock Awards			
	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 or Units of Stock Unvested ¹ (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$) ²	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested ³ (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ² (\$)
Hassane El-Khoury ¹⁴ President, Chief Executive Officer and Director	4,300	—	—	6.17	3/19/2019	—	—	—	—
	1,339	—	—	2.72	11/20/2018	—	—	—	—
	2,472	—	—	5.55	7/8/2018	—	—	—	—
	—	—	—	—	—	158,577	2,416,713	—	—
	—	—	—	—	—	33,000	502,920	—	—
	—	—	—	—	—	30,000	457,200	—	—
	—	—	—	—	—	128,828	1,963,339	—	—
	—	—	—	—	—	—	—	190,260	2,899,562
	—	—	—	—	—	—	—	11,000	167,640
Thad Trent Executive Vice President, Finance and Administration, Chief Financial Officer	18,335	—	—	11.55	5/30/2021	—	—	—	—
	16,001	—	—	11.27	12/18/2020	—	—	—	—
	17,000	—	—	6.17	3/19/2019	—	—	—	—
	—	—	—	—	—	57,507	876,407	—	—
	—	—	—	—	—	27,000	411,480	—	—
	—	—	—	—	—	10,000	152,400	—	—
	—	—	—	—	—	20,000	304,800	—	—
	—	—	—	—	—	1,334	20,330	—	—
	—	—	—	—	—	—	—	68,993	1,051,453
	—	—	—	—	—	—	—	9,000	137,160
Sam Geha, Executive Vice President, Memory Products	400	—	—	11.55	5/30/2021	—	—	—	—
	—	—	—	—	—	52,276	796,686	—	—
	—	—	—	—	—	36,310	553,364	—	—
	—	—	—	—	—	9,102	138,714	—	—
	—	—	—	—	—	2,335	35,585	—	—
	—	—	—	—	—	3,251	49,545	—	—
	—	—	—	—	—	4,000	60,960	—	—
	—	—	—	—	—	—	—	62,724	955,914
	—	—	—	—	—	—	—	26,417	402,595
	—	—	—	—	—	—	—	3,034	46,238
—	—	—	—	—	—	—	2,802	42,702	

Proxy Statement

Name and Principal Position	Option Awards					Stock Awards			
	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 or Units of Stock Unvested ¹ (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$) ²	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested ³ (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ² (\$)
Sudhir Gopalswamy, Executive Vice President, Microcontroller & Connectivity	6,598	—	—	6.17	3/19/2019	—	—	—	—
	—	—	—	—	—	52,276	796,686	—	—
	—	—	—	—	—	38,210	582,320	—	—
	—	—	—	—	—	4,719	71,918	—	—
	—	—	—	—	—	3,500	53,340	—	—
	—	—	—	—	—	12,800	195,072	—	—
	—	—	—	—	—	4,400	67,056	—	—
	—	—	—	—	—	8,000	121,920	—	—
	—	—	—	—	—	1,200	18,288	—	—
	—	—	—	—	—	—	—	62,724	955,914
	—	—	—	—	—	—	—	27,999	423,657
Pamela Tondreau, Executive Vice President, Chief Legal Officer & Human Resources	—	—	—	—	—	47,052	717,072	—	—
	—	—	—	—	—	34,310	522,884	—	—
	—	—	—	—	—	5,233	79,751	—	—
	—	—	—	—	—	6,250	95,250	—	—
	—	—	—	—	—	54,000	822,960	—	—
	—	—	—	—	—	—	—	56,448	860,268
	—	—	—	—	—	—	—	24,963	380,436
	—	—	—	—	—	—	—	1,744	26,579
H. Raymond Bingham Former Executive Chairman ¹⁵	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—

1. A portion of these grants were made under our PARS program. 45% of the 2017 PARS grants, 43% of the 2016 PARS grants and 32% of the 2015 PARS grants were service-based grants. For additional information on these grants, see the "Grants of Plan-Based Awards" table above.
2. The amounts are based on the outstanding grants as of the end of fiscal year 2017 and a fiscal year ending value of \$15.24 per share.
3. Represents the PSUs granted under our PARS program for meeting 100% of the applicable milestones, which milestones include gross margin, new product, total stockholder return, synergy savings, earnings per share, debt leverage, profit before tax, strategic initiatives, and revenue growth metrics.
4. Mr. El-Khoury's option grants expiring on July 8, 2018 were awarded under our 2013 Stock Plan and reflect adjustments made, pursuant to the tax free spin-off of SunPower Corporation in which existing awards were multiplied by the SunPower 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.
5. Unvested RSU awards granted to Mr. Bingham were forfeited in connection with his resignation in June 2017.

OPTION EXERCISES AND STOCK VESTING
Fiscal Year Ended December 31, 2017

Named Executive Officer	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise ¹ (\$)	Number of Shares Acquired Upon Vesting (#)	Value Realized Upon Vesting ¹ (\$)
Hassane El-Khoury	5,377	23,712	213,687	2,822,626
Thad Trent	—	—	124,954	1,612,275
Sam Geha	66,422	439,730	35,039	459,600
Sudhir Gopalswamy	—	—	43,171	579,348
Pamela Tondreau	—	—	78,948	988,339
H. Raymond Bingham	198,636	1,295,572	58,344	764,496

1. The value realized represents the total shares multiplied by the market value on the date of exercise or the date of vesting as applicable. All shares and dollar values are before required tax payments, but after the payment of any exercise price.

NON-QUALIFIED DEFERRED COMPENSATION
Fiscal Year Ended December 31, 2017¹

Named Executive Officer	Executive Contribution in the Last Fiscal Year ² (\$)	Registrant Contribution in the Last Fiscal Year (\$)	Aggregate Earnings in the Last Fiscal Year ³ (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last Fiscal Year End ⁴ (\$)
Hassane El-Khoury	—	—	—	—	—
Thad Trent	232,541	—	73,195	—	761,095
Sam Geha	—	—	28,534	—	567,995
Sudhir Gopalswamy	—	—	—	—	—
Pamela Tondreau	—	—	—	—	—
H. Raymond Bingham	—	—	—	—	—

1. Cypress's two deferred compensation plans provide certain key employees, including executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-deferred basis. Each participant in Cypress's deferred compensation plans may elect to defer a percentage of their compensation (annual base salary, cash bonuses and any cash sales commissions) and invest such deferral in any investment that is available on the open market. Cypress does not make contributions to the employees' deferred compensation plans and does not guarantee returns on the investments. Participant deferrals and investment gains and losses remain as Cypress liabilities and the underlying assets are subject to claims of general creditors. Withdrawals and other distributions are subject to the requirements of the U.S. Internal Revenue Code Section 409A.
2. 100% of executive contributions to the non-qualified deferred compensation plans are reported in the Summary Compensation Table.
3. None of the aggregate earnings in the non-qualified deferred compensation plans are reported in the Summary Compensation Table.
4. The aggregate balance amounts under the deferred compensation plans includes deferrals made for prior fiscal years. For individuals who were NEOs in the fiscal years in which the deferrals were made, the amount of the deferred compensation was included in such individuals' compensation as reported in the Summary Compensation Table included in the proxy statement for each such fiscal year.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL
Fiscal Year Ended December 31, 2017

As described in the “*Compensation Discussion and Analysis (CD&A) - Employment Agreements and Severance Arrangements*” section of this Proxy Statement, the Company has entered into or adopted certain agreements and policies that provide the Company’s NEOs severance payments and benefits in the event their employment is terminated under various circumstances.

Change in Control Severance Agreements

In fiscal year 2016, the Company entered into a Change in Control Severance Agreement with each of the NEOs other than Mr. Bingham; provided, however, that Mr. El-Khoury’s Change in Control Severance Agreement has been superseded by his Employment Agreement. The table below sets forth amounts that would have been payable under the Change in Control Severance Agreements if a change in control had occurred and the executives’ employment had terminated either by the Company (other than for cause, death or disability) or by the executive for good reason on December 31, 2017, the last day of fiscal year 2017, subject to the executive signing and not revoking a standard release of claims in a form reasonably acceptable to the Company. The amounts in the table below are calculated based on the base salary and target bonus applicable to the executive in fiscal year 2017. Executives may not receive benefits under both the Severance Policy and the Change in Control Severance Agreement.

Named Executive Officer	Salary Payments (\$)	Bonus Payments (\$)	COBRA Benefits (\$)	Equity Acceleration ¹ (\$)	Total (\$)
Hassane El-Khoury	—	—	—	—	—
Thad Trent	466,667	326,667	24,741	3,788,040	4,606,115
Sam Geha	396,667	277,667	24,741	3,083,781	3,782,856
Sudhir Gopalwamy	396,667	277,667	24,741	3,433,980	4,133,055
Pamela Tondreau	420,000	294,000	24,539	3,619,500	4,358,039
H. Raymond Bingham	—	—	—	—	—

- The value of equity award acceleration is based on the closing price (\$15.24) of the Company’s common stock on December 29, 2017, which was the last trading day of the 2017 fiscal year. The 2017 fiscal year ended on December 31, 2017.

Chief Executive Officer Employment Agreement

Under the terms of the Company’s employment agreement with Mr. El-Khoury, described above, entered into on November 30, 2016, if Mr. El-Khoury’s employment had been terminated by the Company without cause (and not due to his death or disability) or by Mr. El-Khoury for good reason on the last day of fiscal year 2017, December 31, 2017, he would have been entitled to the severance benefits set forth in the table below. Payment of the severance benefits is subject to Mr. El-Khoury signing and not revoking a general release of claims in a form satisfactory to the Company. The amounts in the table below are calculated based on the base salary and target bonus applicable to Mr. El-Khoury at the end of fiscal year 2017.

Named Executive Officer	Salary Payments (\$)	Bonus Payments (\$)	COBRA Benefits (\$)	Equity Acceleration ¹ (\$)	Total (\$)
Hassane El-Khoury	1,300,000	1,625,000	16,982	9,035,738	11,977,720

- The value of equity award acceleration is based on the closing price (\$15.24) of the Company’s common stock on December 29, 2017, which was the last trading day of the 2017 fiscal year. The 2017 fiscal year ended on December 31, 2017.

Mutual Release Agreement

On June 11, 2017, upon Mr. Bingham's resignation, the Company and Mr. Bingham entered into a mutual release agreement (the "Release Agreement"). He received base salary and vesting of his then-outstanding equity awards through the date of his resignation. There was no acceleration of Mr. Bingham's existing equity awards or compensation or other arrangements entered into with Mr. Bingham in connection with his resignation other than the Release Agreement.

CEO PAY RATIO

In August 2015, pursuant to a mandate of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission adopted a rule requiring annual disclosure (for a company's first full fiscal year beginning on or after January 1, 2017) of the ratio of the median employee's total annual compensation to the total annual compensation of the chief executive officer ("CEO"). The Company's CEO is Hassane El-Khoury.

As of December 31, 2017, a listing was prepared to determine Cypress's median employee. Cypress employed 6,825 persons of which 6,276 were considered regular full - or part-time employees and 549 were considered employees of a subsidiary, temporary or seasonal workers. Approximately 34.6% of our employees are in North America; 5.4% are in Europe; and, 59.9% are in Asia. From this list, the Company identified the median employee based on the compensation measures described herein. We did not make any assumptions, adjustments (including cost-of-living adjustments) or use any estimates for purposes of determining total cash compensation. After identifying the median employee based on total cash compensation, we calculated the annual total compensation for such employee using the same methodology we use for our named executive officers as required to be set forth in the Summary Compensation Table included in this Proxy Statement. Compensation was measured over the twelve-month period beginning on January 1, 2017 and ending on December 31, 2017. For simplicity, in determining our median employee, the value of the Company's 401(k) plan, global pension plans (where offered) and medical benefits provided was excluded as all employees, including the CEO, are generally offered comparable benefits.

- Mr. El-Khoury's total annual compensation for fiscal year 2017 was \$6,429,446, as reflected in the Summary Compensation Table included in this Proxy Statement.
- Our median employee's total annual compensation for fiscal year 2017 was \$44,846.
- For fiscal year 2017, Mr. El-Khoury's total annual compensation was approximately 143 times that of our median employee.

This ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll and employment records and the methodology described above. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. Therefore, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of Cypress's Board of Directors (the "Board") serves as the representative of the Board with respect to its oversight of:

- Cypress's accounting and financial reporting processes, including the integrity of the Company's financial statements as well as the annual and quarterly audits of such 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;
- Cypress's independent registered public accounting firm's appointment, qualifications and independence, as well as such firm's fees and scope of services;
- risks related to internal controls, financial reporting, fraud, insurance, treasury, cybersecurity, compliance and litigation; and
- the performance of Cypress's internal audit function.

The Audit Committee also provides the Board with such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board.

The charter of the Audit Committee is posted on our website at <http://investors.cypress.com/corporate-governance.cfm>.

Cypress's management has primary responsibility for preparing Cypress's financial statements, establishing the Company's financial reporting process and internal financial controls. Cypress's independent registered public accounting firm, currently PricewaterhouseCoopers LLP, 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 controls over financial reporting. The Audit Committee reviews the Company's financial disclosures and holds regular executive sessions outside the presence of management with our independent registered public accounting firm. The Committee also meets privately, as needed, with our chief financial officer, our legal counsel and our internal auditors to discuss our internal accounting control policies and procedures as well as any other issues raised by the Committee. 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 December 31, 2017, with management, including a discussion of the quality and substance of the accounting principles, the reasonableness of any significant judgment exercised, 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 December 31, 2017. The Audit Committee reports on these meetings to our full Board.

The Audit Committee hereby reports as follows:

(1) The Audit Committee has reviewed and discussed with management and the independent auditors the audited financial statements in Cypress's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

(2) The Audit Committee has discussed with the independent auditors the matters required to be discussed by the Statement on Auditing Standards No. 1301, *Communication with Audit Committees*, including, among other items, matters related to the conduct by the independent auditors of the audit of Cypress's consolidated financial statements.

(3) The Audit Committee has received the written disclosures and the letter from the independent auditors for Cypress as required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors' communications with the Audit Committee concerning independence, and has discussed with the auditors their independence.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to Cypress's Board, 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 December 31, 2017 for filing with the Securities and Exchange Commission. The Audit Committee also recommended the reappointment of PricewaterhouseCoopers LLP as Cypress's independent registered public accounting firm for fiscal year 2018.

Each member of the Audit Committee that served during fiscal year 2017 was independent as defined under the Nasdaq Listing Rules and the SEC rules applicable to audit committee members during the period in which they served.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

W. Steve Albrecht, Chairman
Catherine P. Lego
Camillo Martino
Michael S. Wishart

OTHER REQUIRED DISCLOSURES

Compensation Committee Interlocks and Insider Participation

During fiscal year 2017, the following directors were members of our Compensation Committee: Eric A. Benhamou, Wilbert van den Hoek, Camillo Martino, Jeffrey J. Owens, Jeannine Sargent and Michael S. Wishart. None of the Compensation Committee members is or has at any time been an officer or employee of Cypress.

None of Cypress's 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 named executive officers serving on Cypress's Board or Compensation Committee.

Policies and Procedures with Respect to Related-Person Transactions

Our written Code of Business Conduct and Ethics prohibits our executive officers, directors and employees, or any of such persons' immediate family members or affiliates, from entering into any transaction or relationship that might present a conflict of interest to the Company or such individual. Any potential conflict of interest must be reported to the Company's chief financial officer or the Legal Department for review and, if necessary, escalated to the Audit Committee for further review. Our Audit Committee considers the relevant facts and circumstances available and deemed relevant to the Audit Committee, including, but not limited to the risks, costs and benefits to us, the terms of the transaction, the availability of other sources for comparable services or products, and, if applicable, the impact on a director's independence.

Certain Relationships and Related Transactions

In fiscal year 2017, we sold approximately \$495,000 in products and services to Flex Ltd. (formerly known as Flextronics International Ltd, "Flex") and its subsidiaries during the time that Mr. Bingham served as our Executive Chairman. Mr. Bingham was previously on the board of directors of Flex. Mr. Bingham was not directly involved in the negotiation of any agreements with Flex and did not have any role in determining the price or terms to Flex. Ms. Sargent was appointed to our Board on December 14, 2017 and previously served as President of Innovation and New Ventures at Flex, until October 2017. Ms. Sargent was not directly involved in the negotiation of any agreements with Flex and did not have any role in determining the price or terms to Flex.

In fiscal year 2017, we purchased approximately \$2.4 million in products and services from Oracle Corporation ("Oracle") during the time that Mr. Bingham served as our Executive Chairman. Mr. Bingham was previously on the board of directors of Oracle. Mr. Bingham was not directly involved in the negotiation of any agreements with Oracle and did not have any role in determining the price or terms to Oracle.

In fiscal year 2017, we purchased approximately \$797,000 in products and services from Lam Research Corporation ("Lam Research") and we owed approximately \$297,000 to Lam Research for products and services as of the end of the fiscal year, corresponding to the time that Ms. Lego served on our Board. In fiscal year 2017, we sold approximately \$104,000 in products and services to Lam Research during the time that Ms. Lego served on our Board. Ms. Lego was appointed to our Board on September 6, 2017 and has served on the board of Lam Research since 2006. Ms. Lego was not directly involved in the negotiation of any agreements with Lam Research and did not have any role in determining the price or terms to Lam Research.

Other than described above, there are no related person transactions between our directors or executive officers 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 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 Form 5 with the Securities and Exchange Commission ("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.

We believe that, during fiscal year 2017, our directors, executive officers, and 10% stockholders complied with all Section 16(a) filing requirements.

In making these statements, we have relied upon examination of the copies of Forms 3, 4, and 5, and amendments to these forms provided to us and certain written representations of our directors, executive officers, and 10% stockholders.

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 may recommend.

It is important that your shares be represented at the Annual Meeting, regardless of the number of shares you hold. You are, therefore, urged to please execute and return your proxy card in the envelope provided or to vote by telephone or online at your earliest convenience.

FOR THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read "P. Tondreau". The signature is fluid and cursive, with a large initial "P" and a long, sweeping underline.

Pamela Tondreau
Corporate Secretary

Dated: March 29, 2018

APPENDIX A
CYPRESS SEMICONDUCTOR CORPORATION
EMPLOYEE STOCK PURCHASE PLAN

Amended and Restated As Of January 1, 2019

The following constitute the provisions of the Employee Stock Purchase Plan (herein called the “Plan”) of Cypress Semiconductor Corporation (herein called the “Company”).

1. **PURPOSE.** The purpose of the Plan is to provide employees of the Company and its designated subsidiaries with an opportunity to purchase common stock of the Company through accumulated payroll deductions (as described herein). This Plan includes two components: a Code Section 423 Plan Component and a Non-423 Plan Component. It is the intention of the Company to have the Code Section 423 Plan Component qualify as an “Employee Stock Purchase Plan” under Section 423 of the Code and the provisions of the Plan with respect to the Code Section 423 Component, accordingly, shall be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code. In addition, this Plan authorizes the grant of options under the Non-423 Plan Component that do not qualify under Section 423 of the Code, pursuant to the rules, procedures or sub-plans adopted by the Administrator that are designed to achieve tax, securities laws or other objectives for Employees and/or the Company. Except as otherwise indicated, the Non-423 Plan Component will operate and be administered in the same manner as the Code Section 423 Plan Component.
2. **DEFINITIONS.**
 - 2.1 “Act” shall mean the U.S. Securities Exchange Act of 1934, as amended.
 - 2.2 “Administrator” shall mean the Board of the Company or any committee of the members of the Board authorized to administer the Plan.
 - 2.3 “Board” shall mean the Board of Directors of the Company.
 - 2.4 “Code” shall mean the Internal Revenue Code of 1986, as amended.
 - 2.5 “Code Section 423 Plan Component” shall mean the component of this Plan that is intended to meet the requirements set forth in Section 423(b) of the Code. The Code Section 423 Plan Component shall be construed, administered and enforced in accordance with Section 423(b) of the Code.
 - 2.6 “Common Stock” shall mean the Common Stock of the Company.
 - 2.7 “Company” shall mean Cypress Semiconductor Corporation, a Delaware corporation.
 - 2.8 “Compensation” shall mean all regular straight time earnings, payments for overtime, shift premium, cash incentive compensation, cash incentive payments, cash bonuses and commissions (except to the extent that the exclusion of any such items for all participants is specifically directed by the Board or its committee). The Administrator shall have the discretion to determine what constitutes Compensation for Employees under the Plan, but for purposes of Employees participating in the Code Section 423 Plan Component, such determination will be applied on a uniform, non-discriminatory basis.
 - 2.9 “Continuous Status as an Employee” shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than ninety (90) days or reemployment upon the expiration of such leave is guaranteed by contract or statute.
 - 2.10 “Designated Subsidiaries” shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan. The Administrator may provide that any Designated Subsidiary shall only be eligible to participate in the Non-423 Plan Component and at any given time, a Subsidiary that is a Designated Subsidiary under the Code

Section 423 Plan Component shall not be a Designated Subsidiary under the Non-423 Plan Component.

- 2.11 “Employee” shall mean any person, including an officer, who is customarily employed for at least twenty (20) hours per week in a calendar year by the Company or one of its Designated Subsidiaries; provided, however that any temporary or contingency work shall not be included in this definition or be permitted to participate under the Plan. For Offering Periods under the Non-423 Plan Component, Employee shall also mean any other employee of Company or one of its Designated Subsidiaries to the extent that applicable law requires participation in the Plan to be extended to such employee, as determined by the Administrator; unless such employee resides in a country that has been specifically excluded from participation in the Non-423 Component at the discretion of the Administrator.
- 2.12 “Exercise Date” shall mean the last Trading Day of each Offering Period or, if so determined by the Board, the last day of the Exercise Period occurring within such Offering Period, on which an option is exercised.
- 2.13 “Exercise Period” shall generally mean the approximately six (6) month period commencing on the Offering Date and ending on the next Exercise Date.
- 2.14 “Non-423 Plan Component” shall mean a component of this Plan that is not intended to meet the requirements set forth in Section 423(b) of the Code.
- 2.15 “Offering Period” shall mean:
- 2.15.1 For any Offering Period commencing prior to January 1, 2018, a period of approximately eighteen (18) months during which an option granted pursuant to the Plan may be exercised, commencing on the first (1st) Trading Day on or after December 31 and June 30 of each year and terminating on the Offering Period commencement date approximately eighteen (18) months later.
- 2.15.2 For any Offering Period commencing on or after January 1, 2018, a period of approximately six (6) months during which an option granted pursuant to the Plan may be exercised, commencing on January 1 and July 1 of each year (or if such date is not a Trading Day, the first Trading Day immediately thereafter) and terminating on June 30 and December 31 of each year (or if such date is not a Trading Day, the Trading Day immediately prior to such date).
- 2.16 “Offering Date” shall mean the first (1st) Trading Day of each Offering Period of the Plan.
- 2.17 “Payroll Deduction” (whether or not capitalized herein) shall mean with respect to the Code Section 423 Plan Component, deductions from an Employee’s or participant’s Compensation or after-tax cash contributions made under the Plan by the Employee or participant during an applicable Offering Period and within three (3) business days following each payday applicable to the Employee or participant during such Offering Period but in any event prior to the Exercise Date for such Offering Period.
- 2.18 “Plan” shall mean this Employee Stock Purchase Plan, which includes a Code Section 423(b) Plan and a non-423(b) Component.
- 2.19 “Subsidiary” shall mean a corporation, domestic or foreign, of which not less than fifty percent (50%) of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.
- 2.20 “Trading Day” shall mean a day on which national stock exchanges and the Nasdaq System are open for trading.

3. ELIGIBILITY.

- 3.1 Any Employee as defined in paragraph 2 who is employed by the Company as of an Offering Date shall be eligible to participate in the Plan; provided that for purposes of Participants participating in the Code Section 423 Plan Component, this rule will be applied on a uniform and non-discriminatory basis.

- 3.2 Employees who are citizens or residents of a non-U.S. jurisdiction (without regard to whether they also are citizens or residents of the United States or resident aliens (within the meaning of Section 7701(b)(1)(A) of the Code)) may be excluded from participation in the Plan or an Offering Period if the participation of such Employees is prohibited under the laws of the applicable jurisdiction or if complying with the laws of the applicable jurisdiction would cause the Plan or an Offering to violate Section 423 of the Code.
- 3.3 No Employee shall be eligible to participate in the Non-423(b) Component of the Plan if he or she is an officer or director of the Company subject to the requirements of Section 16 of the Act.
- 3.4 Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary of the Company, or (ii) which permits his rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate which exceeds the number of shares equal to \$25,000, based on the fair market value of Common Stock determined at the time such option is granted, for each calendar year in which such option is outstanding at any time, rounded down to the nearest whole share.

4. OFFERING PERIODS.

- 4.1 For any Offering Period commencing prior to January 1, 2018, the Plan shall be implemented by eighteen (18) month Offering Periods beginning approximately every six (6) months with a new Offering Period commencing on the first (1st) trading day on or after December 31 and June 30 each year, or on such other date as the Board shall determine. The Plan shall continue thereafter until terminated in accordance with paragraph 20 hereof. Subject to the requirements of paragraph 20, the Board shall have the power to change the duration of offering periods with respect to future offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first offering period to be affected.
- 4.2 For any Offering Period commencing on or after January 1, 2018, the Plan shall be implemented by sequential six (6) month Offering Periods, with a new Offering Period commencing on the Offering Date and ending on June 30 and December 31 of each year (or if such day is not a Trading Day, the Trading Day immediately prior to such date), or on such other date as the Board shall determine. The Plan shall continue thereafter until terminated in accordance with paragraph 20 hereof. Subject to the requirements of paragraph 20, the Board shall have the power to change the duration of Offering Periods with respect to future offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected; provided, however, that no Offering Period under the Code Section 423 Plan Component may have a duration exceeding twenty-seven (27) months.

5. PARTICIPATION.

- 5.1 An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deduction on the form provided by the Company and filing it with the Company's payroll office prior to the applicable Offering Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given offering; provided that Employees participating in the Non-423 Component may contribute funds to participate in the Plan through other means specified by the Administrator to comply with non-U.S. requirements. For purposes of Employees participating in the Code Section 423 Plan Component, the processing of enrollments, whether on-line or via hard copy, will be applied on a uniform and non-discriminatory basis.
- 5.2 Payroll deductions for a participant shall commence on the first payroll following the Offering Date and shall end on the Exercise Date of the offering to which such authorization is applicable, unless sooner terminated by the participant as provided in paragraph 11.

6. PAYROLL DEDUCTIONS.

- 6.1 At the time a participant files his subscription agreement, he shall elect to have payroll deductions made on each payday during the Offering Period in amounts from two percent (2%) to ten percent (10%) of his Compensation; or such greater percentage of Compensation as the Board, in its sole discretion, determines and communicates to eligible Employees prior to the commencement of the first Offering Period affected thereby. The aggregate of such payroll deductions during any Offering Period shall not exceed ten percent (10%) of his aggregate Compensation (or such greater percentage of Compensation as is determined by the Board pursuant to the preceding sentence) during said offering period.
- 6.2 All payroll deductions made by a participant shall be credited to his account under the Plan. A participant may not make any additional payments into such account.
- 6.3 A participant may discontinue his participation in the Plan as provided in paragraph 11, or may decrease the rate or amount of his payroll deductions during the Offering Period (within the limitations of paragraph 6.1) by completing and filing with the Company a new subscription agreement authorizing a decrease in the rate or amount of payroll deductions; provided, however, that a participant may not decrease the rate or amount of his payroll deductions more than two (2) times in any one calendar year. The decrease in rate shall be effective fifteen (15) days following the Company's receipt of the new authorization. Subject to the limitations of paragraph 6.1, a participant's subscription agreement shall remain in effect for successive Offering Periods unless revised as provided herein or terminated as provided in paragraph 11.
- 6.4 Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and paragraph 3.4 herein, a participant's payroll deductions may be decreased to zero percent (0%) at such time, during any Exercise Period which is scheduled to end during the current calendar year, that the aggregate of all payroll deductions accumulated with respect to such Exercise Period and any other Exercise Period ending within the same calendar year equal \$21,250. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Exercise Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in paragraph 11.

7. GRANT OF OPTION.

- 7.1 On the Offering Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date during such Offering Period a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated prior to such Exercise Date and retained in the participant's account as of the Exercise Date by the lower of (i) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Offering Date or (ii) eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Exercise Date; provided, however, that the maximum number of Shares an Employee may purchase during each Offering Period shall be determined at the Offering Date by dividing \$25,000 by the fair market value of a share of the Company's Common Stock on the Offering Date, rounded down to the nearest whole share, and provided further that such purchase shall also be subject to the limitations set forth in paragraphs 3.4, 6.4 and 13 hereof. In the case of the Non-423 Component, the number of shares shall be determined as set forth in the preceding sentence or determined pursuant to such manner or method as determined by the Administrator to comply with non-U.S. requirements. Exercise of the option shall occur as provided in paragraph 8, unless the participant has withdrawn pursuant to paragraph 11, and shall expire on the last day of the Offering Period. Fair market value of a share of the Company's Common Stock shall be determined as provided in paragraph 7.2 herein.
- 7.2 The option price per share of the shares offered in a given Exercise Period shall be the lower of: (i) eighty-five percent (85%) of the fair market value of a share of the Common Stock of the Company on the Offering Date; or (ii) eighty-five percent (85%) of the fair market value of a share of the Common Stock of the Company on the Exercise Date, and in the case of the Non-423 Component, it shall be the lower of prices above or determined pursuant to such manner or method

as determined by the Administrator to comply with non-U.S. requirements. The fair market value of the Company's Common Stock on a given date shall be determined by the Board in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per share shall be the closing price of the Common Stock for such date on the NASDAQ or on such other stock exchange as the Company's Common Stock may be traded or, if not traded on a stock exchange, as reported by the NASDAQ National Market System, or, in the event the Common Stock is not listed on a stock exchange or NASDAQ's National Market System, the fair market value per share shall be the mean of the bid and asked prices of the Common Stock reported for such date in over-the-counter trading.

8. EXERCISE OF OPTION.

8.1 For any Offering Period commencing prior to January 1, 2018, unless a participant withdraws from the Plan as provided in paragraph 11, his option for the purchase of shares will be exercised automatically on each Exercise Date of the Offering Period, and the maximum number of full shares subject to the option shall be purchased for such participant at the applicable option price with the accumulated payroll deductions in his account. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him.

8.2 For any Offering Period commencing on or after January 1, 2018, unless a participant withdraws from the Plan as provided in paragraph 11, his option for the purchase of shares will be exercised automatically on the next Exercise Date following the Offering Date of the applicable Offering Period, and the maximum number of full shares subject to the option will be purchased for such participant at the applicable option price with the accumulated payroll deductions in his account. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him.

9. DELIVERY. As promptly as practicable after the Exercise Date of each Exercise Period, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares purchased upon exercise of his option or an electronic notice reflecting the allocation of such shares to his brokerage account. Any cash remaining to the credit of a participant's account under the Plan after a purchase by him of shares at the termination of each Exercise Period which is insufficient to purchase a full share of common stock of the Company shall be applied to the participant's account for the next Exercise Period. Any other excess accumulated payroll deductions shall be returned to the participant.

10. AUTOMATIC TRANSFER TO LOW PRICE OFFERING PERIOD. With respect to any Offering Period commencing prior to January 1, 2018, in the event that the fair market value of the Company's Common Stock is lower on an Exercise Date than it was on the Offering Date for that Offering Period, all employees participating in the Plan on the Exercise Date shall be deemed to have withdrawn from the Offering Period immediately after the exercise of their option on such Exercise Date and to have enrolled as participants in the newly commencing Offering Period. A participant may elect to remain in the previous Offering Period by filing a written statement declaring such election with the Company prior to the time of the automatic change to the new Offering Period.

11. WITHDRAWAL; TERMINATION OF EMPLOYMENT.

11.1 A participant may withdraw all but not less than all the payroll deductions credited to his account and not yet used to exercise his option under the Plan at any time by giving written notice to the Company. Notwithstanding the foregoing, for purposes of Employees participating in the Code Section 423 Plan Component, the processing of withdrawals, whether on-line or via hard copy, will be applied in a uniform and non-discriminatory basis. All of the participant's payroll deductions credited to his account will be paid to such participant promptly after receipt of notice of withdrawal and such participant's option for the Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made during the Offering Period. If a participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period unless the participant delivers to the Company a new subscription agreement. Notwithstanding any other provision of the Plan to the contrary, in the event a participant has elected to make payroll deduction contributions other than through deductions from

- his Compensation, such participant shall be deemed to have withdrawn from the Plan in accordance with this paragraph 11.1 if any such payroll deduction contribution is not received by the Company within three (3) business days following an applicable payday.
- 11.2 Upon termination of the participant's Continuous Status as an Employee prior to an Exercise Date for any reason, including retirement or death, the payroll deductions credited to such participant's account during the Offering Period but not yet used to exercise the option will be returned to such participant or, in the case of his death, to the person or persons entitled thereto under paragraph 15, and such participant's option will be automatically terminated.
- 11.3 In the event an Employee fails to remain in Continuous Status as an Employee of the Company during an Offering Period in which the Employee is a participant, he will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to his account will be returned to such participant and such participant's option terminated.
- 11.4 A participant's withdrawal from an Offering Period will not have any effect upon his eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the participant withdraws.
- 11.5 With respect to an Offering Period commencing prior to January 1, 2018, a participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company.
12. **INTEREST.** No interest shall accrue on the payroll deductions of a participant in the Plan, except as may be required by applicable law, as determined by the Administrator, for participants in the Non-423 Plan Component (or the Code Section 423 Plan Component if permitted under Section 423 of the Code).
13. **STOCK.**
- 13.1 Effective January 1, 2019, the maximum number of shares of the Company's Common Stock which are available for future issuance under the Plan shall be the number available for future issuance as of such date, plus an additional seven million (7,000,000) shares, subject to adjustment upon changes in capitalization of the Company as provided in paragraph 19. "Issued Shares" shall mean the number of shares of Common Stock of the Company outstanding on such date plus any shares reacquired by the Company during the fiscal year that ends on such date. If the total number of shares which would otherwise be subject to options granted pursuant to paragraph 7.1 hereof on the Exercise Date exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a *pro rata* allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable; provided, however, for purposes of Employees participating in the Code Section 423 Plan Component, any *pro rata* allocation, will be applied on a uniform and non-discriminatory basis. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.
- 13.2 The participant will have no interest or voting right in shares covered by his option until such option has been exercised.
- 13.3 Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his spouse.
14. **ADMINISTRATION.** The Plan shall be administered by the Administrator. The Administrator is specifically authorized to adopt rules, procedures and subplans, which for purposes of the Non-423 Component may be outside the scope of Section 423 of the Code, regarding, but not limited to, eligibility to participate, the definition of Compensation, handling of payroll deductions, making of contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold payroll deductions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of

stock certificates which vary with local requirements. The administration, interpretation or application of the Plan by the Administrator shall be final, conclusive and binding upon all participants.

15. DESIGNATION OF BENEFICIARY.

15.1 Unless otherwise determined by the Administrator, a participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the Offering Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the Exercise Date of the Offering Period.

15.2 Such designation of a beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

16. TRANSFERABILITY. Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in paragraph 15 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with paragraph 11.

17. USE OF FUNDS. All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions except for deductions or contributions made to a Non-423 Component where, as determined by the Administrator, non-U.S. law requires segregation of such amounts. Until shares are issued, participants shall only have the rights of an unsecured creditor, although participants in the Non-423 Component may have additional rights where required under local law, as determined by the Administrator.

18. REPORTS. Individual accounts will be maintained for each participant in the plan. Statements of account will be given to participating employees promptly following the exercise date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

19. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION.

19.1 Subject to any required action by the stockholders of the Company, the number of shares of common stock covered by each option under the Plan which has not yet been exercised and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves") as well as the price per share of common stock covered by each option under the plan which has not yet been exercised, 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 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.

- 19.2 In the event of the proposed dissolution or liquidation of the Company, the offering period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board.
- 19.3 In the event of a merger of the Company with or into another corporation, or the sale of all (or substantially all) of the assets of the Company, each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of the successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Periods then in progress by setting a new Exercise Date (the “New Exercise Date”). If the Board shortens the Offering Periods then in progress in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify each participant in writing, at least fifteen (15) days prior to the New Exercise Date, that the Exercise Date for his or her option has been changed to the New Exercise Date and that his or her option will be exercised automatically on the New Exercise Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in paragraph 11.
- 19.4 The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.
20. AMENDMENT OR TERMINATION.
- 20.1 The Administrator may at any time and for any reason terminate or amend the Plan. Except as otherwise provided in the Plan, no such termination can affect options previously granted, provided that an Offering Period may be terminated by the Administrator on any Exercise Date if the Administrator determines that the termination of the Offering Period or the Plan is in the best interests of the Company and its stockholders. Except as provided in paragraph 19 and this paragraph 20 hereof, no amendment may make any change in any option theretofore granted which adversely affects the rights of any participant. To the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule), the Company shall obtain stockholder approval in such a manner and to such a degree as required.
- 20.2 Without stockholder consent and without regard to whether any participant rights may be considered to have been “adversely affected,” the Administrator shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company’s processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant’s Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.
- 20.3 In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to:
- 20.3.1 increasing the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;
 - 20.3.2 shortening any Offering Period so that Offering Period ends on a new Exercise Date, including an Offering Period underway at the time of the Administrator action; and
 - 20.3.3 allocating shares.

21. **NOTICES.** All notices or other communications by a participant to the Company under or in connection with the plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.
22. **CONDITIONS UPON ISSUANCE OF SHARES.** Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the U.S. Securities Act of 1933, as amended, the Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise 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 by any of the aforementioned applicable provisions of law.
23. **CODE SECTION 409A.** The Code Section 423 Plan Component is exempt from the application of Code Section 409A. The Non-423 Plan Component is intended to be exempt from Code Section 409A under the short-term deferral exception and any ambiguities herein will be interpreted to so be exempt from Code Section 409A. In furtherance of the foregoing and notwithstanding any provision in the Plan to the contrary, if the Administrator determines that an option granted under the Plan may be subject to Code Section 409A or that any provision in the Plan would cause an option under the Plan to be subject to Code Section 409A, the Administrator may amend the terms of the Plan and/or of an outstanding option granted under the Plan, or take such other action the Administrator determines is necessary or appropriate, in each case, without the participant's consent, to exempt any outstanding option or future option that may be granted under the Plan from or to allow any such options to comply with Code Section 409A, but only to the extent any such amendments or action by the Administrator would not violate Code Section 409A. Notwithstanding the foregoing, the Company shall have no liability to a participant or any other party if the option to purchase Common Stock under the Plan that is intended to be exempt from or compliant with Code Section 409A is not so exempt or compliant or for any action taken by the Administrator with respect thereto. The Company makes no representation that the option to purchase Common Stock under the Plan is compliant with Code Section 409A.
24. **TERM OF PLAN.** Except to the extent it is terminated earlier pursuant to paragraph 20, the plan shall remain in effect until May 10, 2023.



Cypress Semiconductor Corporation 198 Champion Court, San Jose, CA 95134-1709
(408) 943-2600 www.cypress.com

© 2018 Cypress Semiconductor Corporation. All Rights Reserved. Trademarks are the property of their respective owners.
Printed in the U.S.A.