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SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934 for the quarterly period ended April 1, 1996 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

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

Delaware

94-2885898

-----  
(State or other jurisdiction  
of incorporation or  
organization)

-----  
(I.R.S. employer  
identification No.)

3901 North First Street, San Jose, California

95134-1599

-----  
(address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (408) 943-2600  
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NOT APPLICABLE

-----  
(Former name, former address and former fiscal year, if changed since  
last report)

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 at least the past 90 days.

Yes X  
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No  
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Indicate the number of shares outstanding of each of the issuer's classes of  
common stock, as of the latest practicable date.

April 1, 1996 (all one class): 79,519,000  
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CYPRESS SEMICONDUCTOR CORPORATION

FORM 10-Q  
Quarter Ended April 1, 1996

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CYPRESS SEMICONDUCTOR CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share data)  
 (Unaudited)

	Apr. 1, 1996	Jan. 1, 1996
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,090	\$ 9,487
Short-term investments	109,983	152,131
	-----	-----
Total cash, cash equivalents and short-term investments	111,073	161,618
Accounts receivable, net of allowances of \$2,479 at April 1, 1996 and \$2,828 at January 1, 1996	101,536	108,587
Inventories	36,858	28,978
Other current assets	58,394	52,454
	-----	-----
Total current assets	307,861	351,637
Property, plant and equipment (net)	387,456	336,593
Other assets, including restricted investments of \$43,379 at April 1, 1996 and \$39,257 at January 1, 1996	68,375	62,498
	-----	-----

Total assets	\$ 763,692	\$ 750,728
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 86,016	\$ 82,315
Accrued liabilities	40,735	46,800
Deferred income on sales to distributors	14,263	13,190
Income taxes payable	26,828	18,752
	-----	-----
Total current liabilities	167,842	161,057
Convertible subordinated notes	96,452	95,879
Deferred income taxes	15,653	15,653
Other long-term liabilities	5,881	6,040
	-----	-----
Total liabilities	285,828	278,629
	-----	-----

CYPRESS SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

(In thousands, except share data)  
(Unaudited)

	Apr. 1, 1996	Jan. 1, 1996
	-----	-----
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued and outstanding	--	--
Common stock, \$.01 par value, 250,000,000 shares authorized; 89,779,000 and 88,924,000 issued; 79,519,000 and 81,501,000 outstanding	898	889
Additional paid-in capital	297,070	292,713
Retained earnings	296,739	262,462
	-----	-----
594,707	594,707	556,064
Less shares of common stock held in treasury, at cost: 10,260,000 at April 1, 1996 and 7,423,000 at January 1, 1996	(116,843)	(83,965)
	-----	-----
Total stockholders' equity	477,864	472,099
	-----	-----
Total liabilities and stockholders' equity	\$ 763,692	\$ 750,728
	=====	=====

CYPRESS SEMICONDUCTOR CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (In thousands, except per share data)  
 (Unaudited)

	Three Months Ended	
	Apr. 1, 1996	Apr. 3, 1995
Revenues	\$ 170,171	\$ 123,365
Costs and expenses:		
Cost of revenues	76,861	60,834
Research and development	21,416	15,671
Selling, general and administrative	18,140	15,291
Other non-recurring costs (Note 4)	--	17,800
Total operating costs and expenses	116,417	109,596
Operating income	53,754	13,769
Interest expense	(1,647)	(1,733)
Interest and other income	1,873	2,303
Income before income taxes	53,980	14,339
Provision for income taxes	(19,703)	(5,234)
Net income	\$ 34,277	\$ 9,105

Net income per share:

Primary	\$ 0.41	\$ 0.11
Fully diluted	\$ 0.39	\$ 0.11

Weighted average common and  
 common equivalent shares  
 outstanding:

Primary	83,418	87,223
Fully diluted	91,358	95,607

See accompanying notes to condensed consolidated financial statements.

CYPRESS SEMICONDUCTOR CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Three Months Ended	
	Apr. 1, 1996	Apr. 3, 1995
	-----	-----
Cash flows from operating activities:		
Net income	\$ 34,277	\$ 9,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,604	13,291
Provision for other non-recurring costs	--	17,800
Non-cash interest and amortization of debt issuance costs	676	643
Changes in operating assets and liabilities:		
Receivables	7,051	(2,170)
Inventories	(7,880)	2,214
Other assets	(8,630)	(5,585)
Accounts payable and accrued liabilities	(2,523)	(5,186)
Deferred income	1,073	585
Income taxes payable and deferred income taxes	8,076	(624)
	-----	-----
Net cash generated by operations	53,724	30,073
	-----	-----
Cash flows from investing activities:		
(Increase) Decrease in short-term investments (net)	42,148	(20,279)
Acquisition of property, plant and equipment	(71,635)	(28,689)
	-----	-----
Net cash used for investing activities	(29,487)	(48,968)
	-----	-----
Cash flows from financing activities:		
Repurchase of common stock	(32,878)	--
Issuance of common stock	4,366	11,341
Restricted investments related to building lease agreement	(4,122)	(9,800)
	-----	-----
Net cash generated (used) by financing activities	(32,634)	1,541
	-----	-----
Net decrease in cash and cash equivalents	(8,397)	(17,354)
Cash and cash equivalents, beginning of year	9,487	33,308
	-----	-----
Cash and cash equivalents, end of quarter	\$ 1,090	\$ 15,954
	=====	=====

See accompanying notes to condensed consolidated financial statements.

## CYPRESS SEMICONDUCTOR CORPORATION

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

## 1. Interim Statements

In the opinion of management, the accompanying, unaudited condensed consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial information included therein. While the Company believes that the disclosures are adequate to make the information not misleading, it is suggested that this financial data be read in conjunction with the audited financial statements and notes thereto for the year ended January 1, 1996 included in the Company's 1995 Annual Report on Form 10-K.

For interim financial reporting purposes, the Company reports on a 13-week quarter. The results of operations for the three month period ended April 1, 1996 are not necessarily indicative of the results to be expected for the full year.

## 2. Inventories

	April 1, 1996	January 1, 1996
	-----	-----
Raw materials	\$ 10,160	\$ 9,859
Work in process	16,954	12,682
Finished goods	9,744	6,437
	-----	-----
	\$ 36,858	\$ 28,978
	=====	=====

## 3. Net Income Per Share

Net income per share is computed using the weighted average number of shares of outstanding common stock and common equivalent shares, when dilutive. Common equivalent shares include shares issuable under the Company's stock option plans as determined by the treasury stock method. Fully diluted earnings per share assumes full conversion of the convertible subordinated notes into common shares and the elimination of the related interest requirements (net of income taxes).

## 4. Impact of Litigation

In the normal course of business, the Company receives and makes inquiries with regard to possible patent infringement. Where deemed advisable, the Company may seek or extend licenses or negotiate settlements.

In May 1995, in a case before the U.S. District Court in Dallas, Texas, a jury delivered a verdict of \$17.8 million against the Company in a patent infringement lawsuit filed by Texas Instruments ("TI"). In August 1995, the judge reversed the decision stating TI failed to prove that Cypress infringed

on TI's patents covering the plastic encapsulation process used to package semiconductor devices. TI has filed an appeal, in which the Company will continue to defend itself. In March 1995, the Company recorded a one-time pre-tax charge of \$17.8 million with respect to the original decision. The Company continues to maintain this reserve pending further resolution of this matter.

In June 1995, the U.S. District Court of Northern California dismissed by a summary judgement the class-action lawsuit filed against the Company and certain of its officers. The suit filed was for alleged violations of the Securities Exchange Act of 1934 and certain provisions of state law regarding disclosure of short-term business prospects. The plaintiffs have filed for an appeal, in which the Company will continue to defend itself.

The Company will vigorously defend itself in these matters and, subject to the inherent uncertainties of litigation and based upon discovery completed to date, management believes that the resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations. However, should the outcome of either of these actions be unfavorable, the Company may be required to pay damages and other expenses, which could have a material adverse effect on the Company's financial position and results of operations. In addition, the Company could be required to alter certain of its production processes or products as a result of these matters.

In June 1995, Advanced Micro Devices ("AMD") charged the Company with patent infringement and filed suit in the U.S. District Court in Delaware. The suit claims that the Company infringed several of AMD's Programmable Logic Patents. In November 1995, the Company filed a patent infringement action against AMD in the U.S. District Court for the District of Minnesota. The Company alleged infringement by AMD of a number of the Company's patents in this action. In April 1996, the Company and AMD signed a cross-licensing agreement terminating the patent litigation between the companies. The agreement allows each company to continue to produce its own products with no threat of future patent lawsuits by the other company.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

This report 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. Actual results could differ materially from those projected in the forward-looking statements as a result of the factors set forth in "Factors Affecting Future Results" and elsewhere in this Report.

RESULTS OF OPERATIONS:

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Revenues for the quarter ended April 1, 1996 increased 37.9% over the comparable period a year ago, increasing to \$170.2 million in 1996 compared to

\$123.4 million in 1995. The increase in revenues was primarily due to sales growth in the Company's Memory Products Division ("MPD") and Data Communications Division ("DCD"). MPD's revenues grew to \$104.1 million in the first quarter of 1996 compared to \$64.5 million during the same fiscal 1995 quarter. MPD's revenue growth was partly due to higher average selling prices ("ASPs") in the Static Random Access Memory ("SRAM") products, with some shift into the 1 megabit line of products and partially due to higher sales volume, particularly into the Telecommunication and Datacommunication markets. Although the Company experienced higher ASPs in its sale of SRAM products in the first quarter of fiscal year 1996 in comparison to the comparable quarter a year ago, more recently these products have experienced a reduction in ASPs and the Company expects this trend to continue in the near term. The decrease in ASPs is caused by overall market demand softness partly attributable to over supply and the resulting inventory level correction by the end customers. The greater availability of products due to excess supply has also changed the ordering cycle of customers due to their expectation of immediate product availability or at least the acceptability of much shorter leadtimes. The continuation of these factors in the future could have a materially adverse effect on the Company's results of operations. This increase in sales volume allowed DCD's revenues to grow to \$25.5 million in the first quarter of fiscal year 1996 compared to \$20.5 million in the comparable 1995 quarter. Although the ASP's of DCD's line of products continued to decline, the increase in sales volume more than offset the drop in ASP's.

The Company's cost of revenues as a percentage of revenues for the quarter ended April 1, 1996 decreased to 45.2% compared to 49.3% in the comparable period in 1995. Manufacturing costs as a percentage of revenues continued to decline due to increased sales volume, resulting in lower fixed costs per unit, a die size reduction program in the Company's domestic wafer fabrication plants, and improved manufacturing efficiencies. A change in product mix, especially in the Memory Products and Datacommunications Divisions, also contributed to lower cost of revenues in the first quarter of 1996 as the sales volume shifted to products yielding better margins.

Research and development ("R & D") expenses as a percent of revenues decreased slightly to 12.6% for the quarter ended April 1, 1996, compared to 12.7% for the comparable period in 1995. Although actual R & D spending during the first three months of 1996 increased \$5.7 million over the comparable period a year

ago, its rate of growth has been less than the rate of growth in revenues. The Company expects R & D spending to continue to increase in absolute dollars as the Company increases its activities in its new and existing design centers to develop new products and process technologies.

Selling, general and administrative ("SG&A") expenses as a percent of revenues for the quarter ended April 1, 1996 decreased to 10.7%, compared to 12.4% in the same period last year. Although absolute spending in SG&A increased from the prior year, the rate of growth has been less than the rate of growth in revenues. The increase in absolute spending for SG&A is primarily due to growing headcount and associated spending in sales and marketing as the Company continues its efforts to increase revenue by penetrating new markets and supporting its existing line of products. The Company expects absolute spending in sales and marketing to continue to increase as a result of the Company's efforts to sustain revenue growth. The Company also expects absolute spending in general and administrative expenses to grow moderately in the future in order to maintain and support the Company's growth.

Operating income for the quarter ended April 1, 1996 was \$53.8 million, or 31.6% of revenues, compared with \$13.8 million, or 11.1% of revenues in the comparable period in 1995. During the first quarter of 1995, the Company recorded a one-time charge of \$17.8 million (\$11.3 million net of taxes)

related to the verdict issued against the Company in the patent infringement lawsuit filed by Texas Instruments. Although the verdict was reversed in favor of the Company in August 1995, the Company continues to hold the reserve pending further resolution of this matter. Without the one-time charge, operating income for the first quarter of 1995 would have been \$31.6 million, or 25.6% of revenues.

For the quarter ended April 1, 1996, the Company recorded net interest and other income of \$0.2 million compared to net interest and other income of \$0.6 million in the comparable period of 1995. Although the average cash and short term investment balance during the first quarter of 1996 was significantly less than the average balance during the first quarter of the prior year, the return on investments increased due to a stronger bond market.

FACTORS AFFECTING FUTURE RESULTS:

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The Company believes that its future operating results will continue to be subject to variations based on a wide variety of factors. Such factors include, but are not limited to: general economic conditions, the cyclical nature of the semiconductor industry and the markets addressed by the Company's products such as networking, computer and telecommunications markets, failure of expected growth in demand for, or areas of expected new demand for, semiconductor products to materialize, the availability and extent of utilization of manufacturing capacity, fluctuations in manufacturing yields, price erosion, competitive factors, the timing of new product introductions,

product obsolescence and the ability to develop and implement new technologies including the ramp of the Company's RAM3 process to full commercial production.

The Company is also dependent on subcontract vendors for a portion of the assembly and test manufacturing of its products, which presents risks including the lack of guaranteed production capacity, delay in delivery, susceptibility to disruption in supply, and reduced control over product cost, adverse weather conditions, and manufacturing yields. The Company's operating results could also be impacted by sudden fluctuations in customer requirements, currency exchange rate fluctuations and other economic conditions affecting customer demand and the cost of operations in one or more of the global markets in which the Company does business. Typically, the Company requires new orders, in addition to its existing backlog, to meet each quarter's revenue plan. As a participant in the semiconductor industry, the Company operates in a technologically advanced, rapidly changing and highly competitive environment. While the Company cannot predict what effect these and other factors will have on the Company, they could result in significant volatility in the Company's future performance. To the extent the Company's performance may not meet expectations published by external sources, public reaction could result in a sudden and significantly adverse impact on the market price of the Company's securities, particularly on a short-term basis.

The Company's headquarters and some manufacturing facilities are located near major earthquake faults. In the event of a major earthquake, the Company could suffer damages which could materially and adversely affect the operating results and financial condition of the Company.

Current pending litigation and claims are set forth in Note 4 of the Notes to Condensed Consolidated Financial Statements. The Company will vigorously defend itself in these matters and, subject to the inherent uncertainties of litigation and based upon discovery completed to date, management believes that the resolution of these matters will not have a material adverse impact on the Company's financial position or results of operations. However, should the outcome of any of the actions be unfavorable, the Company may be required to pay damages and other expenses, which could have a material adverse effect on the Company's financial position and results of operations. In addition, the Company could be required to alter certain of its production processes or products as a result of these matters.

LIQUIDITY AND CAPITAL RESOURCES:

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The Company's cash, cash equivalents and short-term investments totaled \$111.1 million at April 1, 1996, a decrease of \$50.5 million compared to the end of 1995. The decrease in cash, cash equivalents and short-term investments is primarily due to the purchase of capital equipment and the Company's repurchase of its common stock.

During the first quarter of fiscal 1996, the Company generated \$53.7 million in cash from operations, compared to \$30.1 million generated during the comparable period in 1995. A majority of the increase in cash from operations is attributable to the significant increase in revenues and earnings recorded during the first quarter of 1996 compared to the first quarter of 1995.

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Cash used for investing activities was \$29.5 million for the three month period ending April 1, 1996 compared to a cash use for investing activities of \$49.0 million for the comparable period in 1995. During the first quarter of 1996, the Company acquired additional property, plant and equipment totalling \$71.6 million. The additions primarily related to increasing capacity in the wafer producing fabrication facilities in Minnesota, Texas and San Jose. In addition, the Company increased the level of capital equipment purchases for its new assembly and test facility in the Philippines. Capital purchases for the remainder of fiscal 1996 are expected to be approximately \$175.0 million as the Company continues to buy equipment to expand capacity, particularly in backend manufacturing. Offsetting the purchases of capital equipment was the conversion of short-term investments into cash of \$42.1 million. A majority of the cash was used to pay for capital equipment and to fund the Company's repurchase of its common stock.

Cash used for financing activities in the first quarter of 1996 was \$32.6 million compared to cash generated from financing activities of \$1.5 million in the comparable period in 1995. During the first quarter of 1996, the Company completed its stock repurchase program which began in the fourth quarter of 1995 by repurchasing 2.6 million shares of its own common stock for \$32.9 million. The Company also received \$4.4 million related to the issuance of common stock through its Employee Stock Purchase Program and the Employee Stock Option Program. Due to the Company's relatively lower stock price, this quarter's receipts from such issuances were significantly less than the \$11.3 million received during the first quarter of 1995.

In May 1995, in a case before the District Court in Dallas, Texas, a jury delivered a verdict of \$17.8 million against the Company in a patent infringement lawsuit filed by Texas Instruments. In August 1995, the judge reversed the decision. The plaintiff has filed an appeal which is pending. In the first quarter of 1995, the Company recorded a one-time pretax charge of \$17.8 million with respect to the original decision. The Company continues to maintain this reserve pending further resolution of this matter.

In 1994 and April 1995, the Company entered into certain operating lease agreements with respect to its office and manufacturing facilities in San Jose and Minnesota. These agreements require quarterly payments which vary based on the London interbank offering rate (LIBOR). These leases provide the Company with the option of either acquiring the properties at their original cost or arranging for the property to be acquired at the end of the respective lease terms. The Company must maintain a specific level of restricted cash or investments to serve as collateral for these leases and maintain compliance with certain financial covenants. In the first three months of 1996, the Company added \$4.1 million to the restricted investments, bringing the total to \$43.4 million. In April 1996, the Company entered into an additional operating lease agreement with respect to two office facilities in San Jose and added \$13.6 million to its restricted investments. These restricted investments are classified as non-current assets on the balance sheet.

While the Company plans to fund working capital requirements through existing capital resources and internally generated cash flow, the Company may, based upon favorable market conditions, choose to raise additional capital through the issuance of equity or debt securities of the Company. The Company may also from time to time consider using available funds to acquire complementary technologies and businesses.

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PART II - OTHER INFORMATION

ITEM 1. The information required by this item is included in Part I in Note 4 of Notes to the Condensed Consolidated Financial Statements.

ITEM 6:

- (a) Exhibit - 10.5 "Amended and Restated 1994 Stock Option Plan"
- Exhibit - 10.10 "1996 Key Employee Bonus Plan Agreement (KEBP)"
- Exhibit - 11.1 "Computation of Net Income Per Common Share and Dilutive Common Share Equivalents"
- Exhibit - 27 "Financial Data Schedule"
  
- (b) Reports on Form 8-K - None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CYPRESS SEMICONDUCTOR CORPORATION

Date: May 16, 1996  
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/s/ T.J. Rodgers  
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T.J. Rodgers  
President and Chief Executive  
Officer

/s/ Emmanuel Hernandez  
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Emmanuel Hernandez  
Vice President, Finance and  
Administration and Chief Financial  
Officer

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS  
COVERING SECURITIES THAT HAVE BEEN REGISTERED UNDER  
THE SECURITIES ACT OF 1933, AS AMENDED.

CYPRESS SEMICONDUCTOR CORPORATION  
1994 STOCK OPTION PLAN

(As amended and Restated on January 25, 1996)

1. PURPOSES OF THE PLAN. The purposes of this Stock Option Plan are:

to attract and retain the best available personnel for positions of substantial responsibility;

to provide additional incentive to Employees and Consultants and Outside Directors; and

to promote the success of the Company's business.

2. COMPONENTS OF THE PLAN. The Plan provides for:

the discretionary granting of Options to Employees and Consultants, which Options may be either Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant; and

the grant of Nonstatutory Stock Options to Outside Directors pursuant to an automatic, non-discretionary formula.

3. DEFINITIONS. As used herein, the following definitions shall apply:

- (a) "ADMINISTRATOR" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 5 of the Plan.
  - (b) "APPLICABLE LAWS" means the legal requirements relating to the administration of stock option plans under state corporate and securities laws and the Code.
  - (c) "BOARD" means the Board of Directors of the Company.
  - (d) "CODE" means the Internal Revenue Code of 1986, as amended.
  - (e) "COMMITTEE" means a Committee appointed by the Board in accordance with Section 5 of the Plan.
  - (f) "COMMON STOCK" means the Common Stock of the Company.
  - (g) "COMPANY" means Cypress Semiconductor Corporation, a Delaware corporation.
  - (h) "CONSULTANT" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services; provided, however, that the term "Consultant" shall not include Outside Directors, unless such Outside Directors are compensated for services to the Company other than through payment of director's fees.
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- (i) "CONTINUOUS STATUS AS A DIRECTOR" means that the Director relationship is not interrupted or terminated.
  - (j) "CONTINUOUS STATUS AS AN EMPLOYEE OR CONSULTANT" means that the employment or consulting relationship with the Company or any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) any leave of absence approved by the Company, including sick leave, military leave, or any other personal leave; provided, however, that for purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company policies) or statute; provided, further, that on the ninety-first (91st) day of any such leave (where reemployment is not guaranteed by contract or statute) the Optionee's Incentive Stock Option shall cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option; or (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor.
  - (k) "DIRECTOR" means a member of the Board.

- (l) "DISABILITY" means total and permanent disability as defined in Section 22(e)(3) of the Code.
- (m) "EMPLOYEE" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.
- (n) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.
- (o) "EXISTING DIRECTORS" means members of the Board on October 12, 1988.
- (p) "FAIR MARKET VALUE" means, as of any date, the value of Common Stock determined as follows:
  - (i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, the Fair Market Value of a Share of Common Stock shall be the closing sale price for such stock (or the mean of the closing bid and asked prices, if no sales were reported), as quoted on such exchange (or the exchange with the greatest volume of trading in Common Stock) or system on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

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- (ii) If the Common Stock is quoted on the NASDAQ system (but not on the National Market System thereof) or is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean of the closing bid and asked prices for such stock on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or
  - (iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.
- (q) "INCENTIVE STOCK OPTION" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.
- (r) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option.
- (s) "NOTICE OF GRANT" means a written notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is part of the Option Agreement.
- (t) "OFFICER" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.
- (u) "OPTION" means a stock option granted pursuant to the Plan or the

Terminated Plans.

- (v) "OPTION AGREEMENT" means a written agreement between the Company and an Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.
- (w) "OPTION EXCHANGE PROGRAM" means a program whereby outstanding options are surrendered in exchange for options with a lower exercise price.
- (x) "OPTIONED STOCK" means the Common Stock subject to an Option.
- (y) "OPTIONEE" means an Employee, Consultant or Outside Director who holds an outstanding Option.
- (z) "OUTSIDE DIRECTOR" means a Director who is not an Employee or Consultant.
- (aa) "PARENT" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.
- (bb) "PLAN" means this 1994 Stock Option Plan.

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- (cc) "RULE 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.
- (dd) "SHARE" means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.
- (ee) "SUBSIDIARY" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.
- (ff) "TERMINATED PLANS" means the Company's 1985 Incentive Stock Option Plan and 1988 Directors' Stock Option Plan, which are terminated upon adoption of, and superseded by, this Plan; however, outstanding Options under the Terminated Plans shall continue in full force in effect, subject to the provisions of such Options and this Plan.

4. STOCK SUBJECT TO THE PLAN. Subject to Section 14 of the Plan, the total number of Shares reserved and available for issuance under the Plan is 3,455,791 Shares (pre-split) (including 455,791 Shares (pre-split) previously authorized but unissued under the Terminated Plans), plus shares subject to options outstanding under the Terminated Plans at the time of adoption of this plan which are subsequently forfeited in connection with termination of employment or other failure to exercise, increased on the first day of each new fiscal year of the Company from and including the 1995 fiscal year by a number of Shares equal to 4.5% of the number of Shares outstanding as of the last business day preceding each such first day of each new fiscal year. However, the number of Shares available for issuance pursuant to Incentive Stock Options shall not include the foregoing annual increase, which shall be used solely for Nonstatutory Stock Options.

Subject to Section 14 of the Plan, if any Shares that have been optioned under an Option (whether granted under this Plan or the Terminated Plans) cease to be subject to such Option (other than through exercise of the Option), or if any Option granted hereunder or thereunder is forfeited, or any Option otherwise terminates prior to the issuance of Common Stock to the participant, the Shares that were subject to such Option shall again be available for distribution in connection with future Options under the Plan. Shares that have actually been issued under the Plan upon exercise of an Option shall not in any event be returned to the Plan and shall not become available for future distribution under the Plan.

5. ADMINISTRATION OF THE PLAN.

(a) PROCEDURE.

(i) MULTIPLE ADMINISTRATIVE BODIES. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to (A) Directors and Officers, and (B) Employees and Consultants who are neither Directors nor Officers.

(ii) ADMINISTRATION WITH RESPECT TO DISCRETIONARY OPTION GRANTS TO INDIVIDUALS SUBJECT TO SECTION 16(b). With respect to discretionary Option grants made to Employees and Consultants who are also Officers or Directors subject to Section 16(b) of the Exchange Act, the Plan shall be administered by (A) the Board, if the Board may administer the Plan in compliance with the rules governing a plan

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intended to qualify as a discretionary plan under Rule 16b-3, or (B) a committee designated by the Board to administer the Plan, which committee shall be constituted to comply with the rules governing a plan intended to qualify as a discretionary plan under Rule 16b-3. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the rules governing a plan intended to qualify as a discretionary plan under Rule 16b-3.

(iii) ADMINISTRATION WITH RESPECT TO DISCRETIONARY OPTION GRANTS TO OTHER PERSONS. With respect to discretionary Option grants made to

Employees or Consultants who are neither Directors nor Officers of the Company, the Plan shall be administered by (A) the Board or (B) a committee designated by the Board, which committee shall be constituted to satisfy Applicable Laws. Once appointed, such Committee shall serve in its designated capacity until otherwise directed by the Board. The Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by Applicable Laws.

(iv) ADMINISTRATION WITH RESPECT TO AUTOMATIC GRANTS TO OUTSIDE

DIRECTORS. Automatic Grants to Outside Directors shall be pursuant to a non-discretionary formula as set forth in Section 11 hereof and therefore shall not be subject to any discretionary administration.

(b) POWERS OF THE ADMINISTRATOR. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to such Committee, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 3(p) of the Plan;

(ii) to select the Consultants and Employees to whom Options may be granted hereunder;

(iii) to determine whether and to what extent Options are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each Option granted hereunder;

(v) to approve forms of agreement for use under the Plan;

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(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Option granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Option or the shares of Common Stock relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;

(vii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(viii) to construe and interpret the terms of the Plan and Options granted pursuant to the Plan;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(x) to modify or amend each Option (subject to Section 16(c) of the Plan);

(xi) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Option previously granted by the Administrator;

(xii) to institute an Option Exchange Program;

(xiii) to determine the terms and restrictions applicable to Options; and

(xiv) to make all other determinations deemed necessary or advisable for administering the Plan.

(c) EFFECT OF ADMINISTRATOR'S DECISION. The Administrator's decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options.

#### 6. ELIGIBILITY.

(a) DISCRETIONARY STOCK OPTIONS. Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee or Consultant who has been granted an Option may be granted additional Options.

(b) OUTSIDE DIRECTOR STOCK OPTIONS. Outside Directors shall be eligible to receive only Nonstatutory Stock Options pursuant to Section 11 hereof.

#### 7. LIMITATIONS.

(a) Each Option shall be designated in the Notice of Grant or Option Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value:

(i) of Shares subject to an Optionee's incentive stock options granted by the Company, any Parent or Subsidiary, which

(ii) become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary)

exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 7(a), incentive stock options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time of grant.

(b) Neither the Plan nor any Option shall confer upon an Optionee any right with respect to continuing the Optionee's employment or consulting relationship or tenure as a director with the Company, nor shall they interfere in any way with the Optionee's, the Company's, or the Company's stockholders', right to terminate such employment or consulting relationship or tenure as a director with the Company at any time, with or without cause.

(c) The following limitations shall apply to grants of Options to Employees:

(i) No Employee shall be granted, in any fiscal year of the Company, Options to purchase more than 500,000 Shares.

(ii) The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in Section 14(a).

(iii) If an Option is canceled (other than in connection with a transaction described in Section 14), the canceled Option will be counted against the limit set forth in Section 7(c)(i). For this purpose, if the exercise price of an Option is reduced, the transaction will be treated as a cancellation of the Option and the grant of a new Option.

8. TERM OF PLAN. The Plan shall become effective upon the date, in 1994, of its approval by the stockholders of the Company. It shall continue in effect for a term of ten (10) years unless terminated earlier under Section 16 of the Plan.

9. TERM OF OPTION. The term of each Option shall be ten (10) years from the date of grant or such shorter term as may be provided in the Notice of Grant or Option Agreement. In the case of an Incentive Stock Option granted to an Optionee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant or such shorter term as may be provided in the Notice of Grant or Option Agreement.

10. OPTION EXERCISE PRICE AND CONSIDERATION.

(a) EXERCISE PRICE. The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no

less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than one hundred (100%) of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be no less than eighty-five percent (85%) of Fair Market Value per Share on the date of grant.

(b) WAITING PERIOD AND EXERCISE DATES. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions which must be satisfied before the Option may be exercised. In so doing, the Administrator may specify that an Option may not be exercised until the completion of a service period.

(c) FORM OF CONSIDERATION. Except with respect to automatic stock option grants to Outside Directors, the Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such form of consideration shall be set forth in the Notice of Grant or Option Agreement and may, as determined by the Administrator, consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

(iv) other Shares which (A) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six months on the date of surrender, and (B) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

(v) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price;

(vi) any combination of the foregoing methods of payment; or

(vii) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws.

#### 11. AUTOMATIC STOCK OPTION GRANTS TO OUTSIDE DIRECTORS.

(a) PROCEDURE FOR GRANTS. The provisions set forth in this Section 11 shall not be amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder. All grants of Options to Outside Directors hereunder shall be automatic and non-discretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted Options or to determine the number of Shares to be covered by Options granted to Outside Directors.

(ii) Each Outside Director shall be automatically granted an Option to purchase 80,000 Shares (the "First Option") upon the date on which such person first becomes a Director, whether through election by

the stockholders of the Company or appointment by the Board of Directors to fill a vacancy.

- (iii) After the First Option has been granted to an Outside Director, such Outside Director shall thereafter be automatically granted an Option to purchase 20,000 Shares (a "Subsequent Option") on a date one year after the date of grant of the First Option and on the same date each year thereafter.
- (iv) Notwithstanding the provisions of subsections (ii) and (iii) hereof, in the event that an automatic grant hereunder would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased upon exercise of Options to exceed the number of Shares available for issuance under the Plan, then each such automatic grant shall be for that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of Outside Directors on the automatic grant date. Any further grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan.
- (v) The terms of an Option granted hereunder shall be as follows:
  - (1) the term of the Option shall be ten (10) years.
  - (2) the Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in subsection (c) hereof.
  - (3) the exercise price per Share shall be 100% of the fair market value per Share on the date of grant of the Option.
  - (4) the Option shall become exercisable as follows:
    - (A) If it is a First Option, it shall become exercisable cumulatively in installments of 16,000 Shares per year beginning on the date one year after such Director's election to the Board of Directors.

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- (B) If it is a Subsequent Option, it shall become exercisable cumulatively in installments of 4,000 Shares per year beginning on the date one year after the date on which it was granted.

(b) CONSIDERATION FOR EXERCISING OUTSIDE DIRECTOR STOCK OPTIONS. The consideration to be paid for the Shares to be issued upon exercise of an automatic Outside Director Option shall consist entirely of cash, check, other Shares of Common Stock which (i) either have been owned by the Optionee for more than six (6) months or were not acquired, directly or indirectly from the Company and (ii) have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment.

(c) POST-DIRECTORSHIP EXERCISABILITY.

- (i) TERMINATION OF STATUS AS A DIRECTOR. If an Outside Director ceases to serve as a Director, he may, but only within ninety days (90) after the date he ceases to be a Director of the Company, exercise his Option to the extent that he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise an Option at the date of such termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(ii) DISABILITY OF DIRECTOR. Notwithstanding the provisions of Section 11(c)(i) above, in the event a Director is unable to continue his service as a Director with the Company as a result of his Disability, he may, but only within six (6) months from the date of termination, exercise his Option to the extent he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(iii) DEATH OF DIRECTOR. In the event of the death of an Optionee:

(A) during the term of the Option who is at the time of his death a Director of the Company and who shall have been in Continuous Status as a Director since the date of grant of the Option, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status a Director for twelve (12) months after the date of death; or

(B) within thirty (30) days after the termination of Continuous Status as a Director, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

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## 12. EXERCISE OF OPTION.

(a) PROCEDURE FOR EXERCISE; RIGHTS AS A STOCKHOLDER. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as set forth in the Option Agreement.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed exercised when the Company receives: (i) written notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) full payment for the Shares with respect to which the Option is exercised. Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Optionee or, if requested by the Optionee, in the name of the Optionee and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.

Exercising an Option in any manner shall decrease the number of Shares thereafter available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) TERMINATION OF EMPLOYMENT OR CONSULTING RELATIONSHIP. Upon termination of an Optionee's Continuous Status as an Employee or Consultant, other than upon the Optionee's death or Disability, the Optionee may exercise

the Option, but only within such period of time as is specified in the Notice of Grant or Option Agreement, and only to the extent that the Optionee was entitled to exercise it at the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant or Option Agreement). In the absence of a specified time in the Notice of Grant or Option Agreement, the Option shall remain exercisable for three months following the Optionee's termination of Continuous Status as an Employee or Consultant. In the case of an Incentive Stock Option, such period of time shall not exceed three (3) months from the date of termination; in the case of a Nonstatutory Stock Option, such period of time shall not exceed twenty-four (24) months from the date of termination. If, at the date of termination, the Optionee is not entitled to exercise the entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise the Option within the time specified by the Administrator, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

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- (c) **DISABILITY OF OPTIONEE.** In the event that an Optionee's Continuous Status as an Employee or Consultant terminates as a result of the Optionee's Disability, the Optionee may exercise his or her Option at any time within (i) for discretionary stock options, six (6) months or such other period of time not exceeding twelve (12) months, as is specified in the Notice of Grant or Option Agreement, or (ii) for automatic stock option grants to Outside Directors, six (6) months from the date of such termination. Any such Options may only be exercised to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant or Option Agreement). If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.
- (d) **DEATH OF OPTIONEE.** In the event of the death of an Optionee:
- (i) during the term of the Option who is at the time of his death an of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status an Employee or Consultant for twelve (12) months after the date of death; or
- (ii) within thirty (30) days after the termination of Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.
- (e) **RULE 16b-3.** Options granted to individuals subject to Section 16 of the Exchange Act ("Insiders") must comply with the applicable provisions of Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

13. **NON-TRANSFERABILITY OF OPTIONS.** An Option may not be sold, pledged,

assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee.

14. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, DISSOLUTION, MERGER, ASSET SALE OR CHANGE OF CONTROL.

- (a) CHANGES IN CAPITALIZATION. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to

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which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect,

and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

- (b) DISSOLUTION OR LIQUIDATION. In the event of the proposed dissolution or liquidation of the Company, with respect to discretionary Options granted under the Plan (but not with respect to Options granted to Outside Directors) the Board may, in the exercise of its sole discretion in such instances, declare that any such Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.
- (c) MERGER OR ASSET SALE. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets

of the Company, each outstanding Option shall be assumed or an equivalent option shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. With respect to a discretionary Option granted under the Plan (but not with respect to Options granted to Outside Directors), the Administrator may, in the exercise of its sole discretion and in lieu of such assumption or substitution, provide for the Optionee to have the right to exercise such Option as to all of the Optioned Stock, including as to Shares which would not otherwise be exercisable. With respect to Options granted to Outside Directors on or after the Effective Date of the Plan, in the event that the successor corporation does not agree to assume such Options or to substitute equivalent options, each such outstanding Option shall become fully vested and exercisable, including as to Shares as to which it would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise. With respect to Options granted to Outside Directors prior to the Effective Date of the Plan, in the event that the successor corporation does not agree to assume such Options or to substitute equivalent options, such Options shall terminate.

If the Administrator makes a discretionary Option fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Administrator shall notify the Optionee that the Option shall be fully exercisable for a period of thirty (30) days from the date of such notice, and the Option will terminate upon the expiration

of such period.

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For the purposes of this subsection, the Option shall be considered assumed if, following the merger or sale of assets, the option confers the right to purchase, for each Share of Optioned Stock subject to the Option immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, for each Share of Optioned Stock subject to the Option, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

15. OPTION DATE OF GRANT. The date of grant of an Option shall be, for all purposes, the date on which the Administrator makes the determination granting such Option, or such other later date as is determined by the Administrator. Notice of the determination shall be provided to each Optionee within a reasonable time after the date of such grant.

16. AMENDMENT AND TERMINATION OF THE PLAN.

- (a) AMENDMENT AND TERMINATION. The Board may at any time amend, alter, suspend or terminate the Plan.
- (b) STOCKHOLDER APPROVAL. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Rule 16b-3 or with Sections 422 and 424 of the Code (or any successor rules or statutes or other applicable laws, rules or regulations, including the requirements of any exchange or quotation system on which the Common Stock is listed or quoted). Such stockholder approval, if required, shall be obtained in such a manner and to such a degree as is required by the applicable law, rule or regulation.
- (c) EFFECT OF AMENDMENT OR TERMINATION. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

17. CONDITIONS UPON ISSUANCE OF SHARES.

- (a) LEGAL COMPLIANCE. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, Applicable Laws, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

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- (b) INVESTMENT REPRESENTATIONS. 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.

18. LIABILITY OF COMPANY.

- (a) INABILITY TO OBTAIN AUTHORITY. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.
- (b) OPTION GRANTS EXCEEDING ALLOTTED SHARES. If the Optioned Stock covered by an Option exceeds, as of the date of grant, the number of Shares which may be issued under the Plan without additional stockholder approval, such Option shall be void with respect to such excess Optioned Stock, unless stockholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with Section 16(b) of the Plan.

19. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

CYPRESS SEMICONDUCTOR CORPORATION  
1994 STOCK OPTION PLAN  
NOTICE OF GRANT

Unless otherwise defined herein, capitalized terms used herein shall have the same meanings as set forth in the Plan.

[Optionee's Name and Address]

You have been granted an option to purchase Common Stock of the Company, subject to the terms and conditions of the Plan and this Option Agreement, as

follows:

Grant Number \_\_\_\_\_  
Date of Grant \_\_\_\_\_  
Vesting Commencement Date \_\_\_\_\_  
Exercise Price per Share \$ \_\_\_\_\_  
Total Number of Shares Granted \_\_\_\_\_  
Total Exercise Price \$ \_\_\_\_\_  
Type of Option: \_\_\_\_\_ Incentive Stock Option  
\_\_\_\_\_ Nonstatutory Stock Option  
Term/Expiration Date: \_\_\_\_\_

VESTING SCHEDULE:

This Option may be exercised, in whole or in part, in accordance with the following schedule:

25% of the Shares subject to the Option shall vest twelve months after the Vesting Commencement Date, and 1/48 of the Shares subject to the Option shall vest each month thereafter.

TERMINATION PERIOD:

This Option may be exercised for 30 days after termination of the Optionee's employment or consulting relationship with the Company. Upon the death or Disability of the Optionee, this Option may be exercised for such longer period as provided in the Plan. In the event of the Optionee's change in status from Employee to Consultant or Consultant to Employee, this Option Agreement shall remain in effect. In no event shall this Option be exercised later than the Term/Expiration Date as provided above.

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CYPRESS SEMICONDUCTOR CORPORATION  
1994 STOCK OPTION PLAN  
OPTION AGREEMENT

Unless otherwise defined herein, capitalized terms used herein shall have the same meanings as set forth in the Plan.

1. GRANT OF OPTION. The Plan Administrator of the Company hereby grants to the Optionee named in the Notice of Grant attached as Part I of this Agreement (the "Optionee"), an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Plan, which is incorporated herein by reference. Subject to Section 14(c) of the Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan shall prevail.

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an

Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

2. EXERCISE OF OPTION.

- (a) RIGHT TO EXERCISE. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement. In the event of Optionee's death, Disability or other termination of Optionee's employment or consulting relationship, the exercisability of the Option is governed by the applicable provisions of the Plan and this Option Agreement.
- (b) METHOD OF EXERCISE. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

No Shares shall be issued pursuant to the exercise of this Option unless such issuance and exercise complies with all relevant provisions of law and the requirements of any stock exchange or quotation service upon which the Shares are then listed. Assuming such compliance, for income tax purposes the Exercised Shares shall be considered transferred to the Optionee on the date the Option is exercised with respect to such Exercised Shares.

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3. METHOD OF PAYMENT. Payment of the aggregate Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

- (a) cash; or
- (b) check; or
- (c) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price; or
- (d) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value

on

the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

4. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. The terms of the Plan and this Option Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

5. TERM OF OPTION. This Option may be exercised only within the term set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

6. TAX CONSEQUENCES. Some of the federal and California tax consequences relating to this Option, as of the date of this Option, are set forth below.

THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) EXERCISING THE OPTION.

- (i) NONSTATUTORY STOCK OPTION. The Optionee may incur regular federal income tax and California income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.
- (ii) INCENTIVE STOCK OPTION. If this Option qualifies as an ISO, the Optionee will have no regular federal income tax or California income tax liability upon its exercise, although the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal tax purposes and may subject the Optionee to alternative minimum tax in

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the year of exercise. In the event that the Optionee undergoes a change of status from Employee to Consultant, any Incentive Stock Option of the Optionee that remains unexercised shall cease to qualify as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option on the ninety-first (91st) day following such change of status.

(b) DISPOSITION OF SHARES.

- (i) NSO. If the Optionee holds NSO Shares for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.
  - (ii) ISO. If the Optionee holds ISO Shares for at least one year after exercise and two years after the grant date, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the lesser of (A) the difference between the Fair Market Value of the Shares acquired on the date of exercise and the aggregate Exercise Price, or (B) the difference between the sale price of such Shares and the aggregate Exercise Price.
- (c) NOTICE OF DISQUALIFYING DISPOSITION OF ISO SHARES. If the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, the Optionee shall immediately notify the Company in writing of such disposition. The Optionee agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the current earnings paid to the Optionee.

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. Optionee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. Optionee further agrees to notify the Company upon any change in the residence address indicated below.

OPTIONEE: CYPRESS SEMICONDUCTOR CORPORATION

Signature \_\_\_\_\_ By: \_\_\_\_\_

Print Name \_\_\_\_\_ Title: \_\_\_\_\_

Residence Address \_\_\_\_\_  
\_\_\_\_\_

CONSENT OF SPOUSE

The undersigned spouse of Optionee has read and hereby approves the terms and conditions of the Plan and this Option Agreement. In consideration of the Company's granting his or her spouse the right to purchase Shares as set forth in the Plan and this Option Agreement, the undersigned hereby agrees to be irrevocably bound by the terms and conditions of the Plan and this Option Agreement and further agrees that any community property interest shall be similarly bound. The undersigned hereby appoints the undersigned's spouse as attorney-in-fact for the undersigned with respect to any amendment or exercise of rights under the Plan or this Option Agreement.

\_\_\_\_\_  
Spouse of Optionee

## EXHIBIT A

CYPRESS SEMICONDUCTOR CORPORATION  
1994 STOCK OPTION PLAN  
EXERCISE NOTICE

Cypress Semiconductor Corporation  
3901 North First Street  
San Jose, CA 95134  
Attention: Secretary

1. EXERCISE OF OPTION. Effective as of today, \_\_\_\_\_, 199\_\_, the undersigned ("Purchaser") hereby elects to purchase \_\_\_\_\_ shares (the "Shares") of the Common Stock of Cypress Semiconductor Corporation (the "Company") under and pursuant to the 1994 Stock Option Plan (the "Plan") and the Stock Option Agreement dated \_\_\_\_\_, 19\_\_ (the "Option Agreement"). The purchase price for the Shares shall be \$ \_\_\_\_\_, as required by the Option Agreement.
2. DELIVERY OF PAYMENT. Purchaser herewith delivers to the Company the full purchase price for the Shares.
3. REPRESENTATIONS OF PURCHASER. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.
4. RIGHTS AS SHAREHOLDER. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.
5. TAX CONSULTATION. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

6. ENTIRE AGREEMENT; GOVERNING LAW. The Plan and Option Agreement are incorporated herein by reference. This Agreement, the Plan and the Option Agreement constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Purchaser with respect to the subject matter hereof, and such agreement is governed by California law except for that body of law pertaining to conflict of laws.

Submitted by:Accepted by:

PURCHASER:CYPRESS SEMICONDUCTOR CORPORATION

\_\_\_\_\_  
Signature By: \_\_\_\_\_

\_\_\_\_\_  
Print Name Its: \_\_\_\_\_

Address:Address:

\_\_\_\_\_  
3901 North First Street  
San Jose, CA 95134  
\_\_\_\_\_

CYPRESS SEMICONDUCTOR CORPORATION  
1996 KEY EMPLOYEE BONUS PLAN AGREEMENT (KEBP)

ARTICLE 1 - PLAN OBJECTIVE

- 1.1 The objective of this Key Employee Bonus Plan is to provide incentive to key employees of the Company based on the Company's overall Sales and Earnings Per Share (EPS) achievement, the Company's growth relative to selected competitors, and the individual's performance against set

individual Critical Success Factors (CSFs).

#### ARTICLE 2 - EFFECTIVE DATE

2.1 This agreement will become effective January 1, 1996 for the plan period of fiscal year 1996. The plan period for fiscal year 1996 covers January 2, 1996 to December 30, 1996.

#### ARTICLE 3 - ELIGIBILITY FOR PLAN PARTICIPATION

- 3.1 Prior to the commencement of each Plan Period, members of Cypress' Executive Staff will recommend to the President/CEO for approval proposed participants for the plan period and their incentive levels.
- 3.2 Prior to the commencement of each Plan Period, the CEO and his Executive Staff's plan participation and their incentive levels will be presented to the Compensation Committee of the Board of Directors for approval.
- 3.3 Participants are notified of their eligibility at the beginning of each plan period.
- 3.4 Newly hired employees may be added as participants during the plan period. Other employees who are currently not plan participants may be considered for participation at the beginning of the plan period, provided however that they have assumed greater responsibility or demonstrated greater contribution to the company. Participants added during the plan period shall receive prorated awards based on the number of months of participation in the plan with a minimum of six months participation. Otherwise, eligibility will be deferred until the next plan period. Exceptions are subject to CEO approval.
- 3.5 Changes in plan participants require the approval of the President/CEO.

#### ARTICLE 4 - CALCULATION OF THE BONUS

- 4.1 The total possible bonus is determined by the absolute performance of Cypress in both revenue and earnings per share (EPS) and by the relative performance of Cypress' revenue growth versus a select list of competitors' revenue growth. (For 1996, the comparison competitors are shown in Attachment A.)
- a) The target bonus is the individual incentive target of each participant.

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- b) The estimated bonus is comprised of two parts, one based on Sales and one based on EPS with each element accounting for the generation of half of the bonus.

#### ESTIMATED BONUS BASED ON REVENUE

If the actual sales for FY96 are equal to \$775 million, the estimated bonus for revenue is multiplied by 25%.

Revenue lower than \$775 million will result in zero bonus for the revenue portion of the plan.

Actual sales performance between \$775 million and \$950 million will result in a multiplier for revenue which ranges from 25%-200% as shown in the table below.

For example, if the actual FY96 revenue equals \$867 million, the estimated bonus for revenue is multiplied by a factor of 112.8%.

For the purpose of computing the bonus multiplier for revenue, the actual FY96 sales will be rounded to the nearest million.

Table 1  
 Bonus Multiplier for Sales  
 For every \$2M sales of Plan

Sales (\$M) FY96	Addtl Bonus Multiplier	Cum Bonus Multiplier
775	0.00%	0.0%
777	3.64%	3.6%
779	3.64%	7.3%
781	3.64%	10.9%
783	3.64%	14.6%
785	3.64%	18.2%
787	3.64%	21.8%
789	3.64%	25.5%
791	3.64%	29.1%
793	3.64%	32.7%
795	3.64%	36.4%
797	3.64%	40.0%
799	3.64%	43.7%
801	3.64%	47.3%
803	3.64%	50.9%
805	3.64%	54.6%
807	3.64%	58.2%
809	3.64%	61.8%
811	3.64%	65.5%
813	3.64%	69.1%
815	3.64%	72.8%
817	3.64%	76.4%
819	3.64%	80.0%
821	3.64%	83.7%

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Table 1 (Continued)  
 Bonus Multiplier for Sales  
 For every \$2M sales of Plan

Sales (\$M) FY96	Addtl Bonus Multiplier	Cum Bonus Multiplier
823	3.64%	87.3%
825	3.64%	91.0%
827	3.64%	94.6%
829	3.64%	98.2%
830	1.82%	100.0%
831	1.64%	101.7%
833	1.64%	103.3%
835	1.64%	105.0%
837	1.64%	106.6%
839	1.64%	108.2%
841	1.64%	109.9%
843	1.64%	111.5%
845	1.64%	113.2%
847	1.64%	114.8%
849	1.64%	116.4%
851	1.64%	118.1%
853	1.64%	119.7%
855	1.64%	121.4%
857	1.64%	123.0%
859	1.64%	124.6%
861	1.64%	126.3%
863	1.64%	127.9%
865	1.64%	129.5%
867	1.64%	131.2%

869	1.64%	132.8%
871	1.64%	134.5%
873	1.64%	136.1%
875	1.64%	137.7%
877	1.64%	139.4%
879	1.64%	141.0%
881	1.64%	142.7%
883	1.64%	144.3%
885	1.64%	145.9%
887	1.64%	147.6%
889	1.64%	149.2%
891	1.64%	150.9%
893	1.64%	152.5%
895	1.64%	154.1%
897	1.64%	155.8%
899	1.64%	157.4%
901	1.64%	159.0%
903	1.64%	160.7%
905	1.64%	162.3%
907	1.64%	164.0%
909	1.64%	165.6%
911	1.64%	167.2%
913	1.64%	168.9%

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Table 1 (Continued)  
 Bonus Multiplier for Sales  
 For every \$2M sales of Plan

Sales (\$M) FY96	Addtl Bonus Multiplier	Cum Bonus Multiplier
-----	-----	-----
915	1.64%	170.5%
917	1.64%	172.2%
919	1.64%	173.8%
921	1.64%	175.4%
923	1.64%	177.1%
925	1.64%	178.7%
927	1.64%	180.4%
929	1.64%	182.0%
931	1.64%	183.6%
933	1.64%	185.3%
935	1.64%	186.9%
937	1.64%	188.6%
939	1.64%	190.2%
941	1.64%	191.8%
943	1.64%	193.5%
945	1.64%	195.1%
947	1.64%	196.7%
949	1.64%	198.4%
950	1.64%	200.0%

## ESTIMATED BONUS BASED ON EPS

If the actual EPS for FY96 is equal to \$1.60 the estimated bonus for EPS is multiplied by 50%.

EPS lower than \$1.60 will result in zero bonus for the EPS portion of the plan.

Actual EPS performance between \$1.60 and \$2.10 will result in a multiplier for EPS which ranges from 50%-200% as shown in the table below.

For example, if the actual FY96 EPS equals \$1.83, the estimated bonus for EPS is multiplied by a factor of 89.7%.

For the purpose of computing the multiplier for EPS, the actual EPS will be rounded to the nearest penny.

Table 2  
Bonus Multiplier for EPS  
For every Penny EPS in Plan

EPS FY96	Addtl Bonus Multiplier	Cum Bonus Multiplier
-----	-----	-----
1.60	50.00%	50.0%
1.61	1.73%	51.7%
1.62	1.73%	53.5%
1.63	1.73%	55.2%
1.64	1.73%	56.9%
1.65	1.73%	58.6%
1.66	1.73%	60.3%
1.67	1.73%	62.1%
1.68	1.73%	63.8%
1.69	1.73%	65.5%
1.70	1.73%	67.2%
1.71	1.73%	69.0%
1.72	1.73%	70.7%
1.73	1.73%	72.4%
1.74	1.73%	74.1%
1.75	1.73%	75.9%
1.76	1.73%	77.6%
1.77	1.73%	79.3%
1.78	1.73%	81.0%
1.79	1.73%	82.8%
1.80	1.73%	84.5%
1.81	1.73%	86.2%
1.82	1.73%	87.9%
1.83	1.73%	89.7%
1.84	1.73%	91.4%
1.85	1.73%	93.1%
1.86	1.73%	94.8%

1.87	1.73%	96.6%
1.88	1.73%	98.3%
1.89	1.73%	100.0%
1.90	4.76%	104.8%

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Table 2 (Continued)  
 Bonus Multiplier for EPS  
 For every Penny EPS in Plan

EPS FY96	Addtl Bonus Multiplier	Cum Bonus Multiplier
1.91	4.76%	109.5%
1.92	4.76%	114.3%
1.93	4.76%	119.1%
1.94	4.76%	123.8%
1.95	4.76%	128.6%
1.96	4.76%	133.3%
1.97	4.76%	138.1%
1.98	4.76%	142.9%
1.99	4.76%	147.6%
2.00	4.76%	152.4%
2.01	4.76%	157.1%
2.02	4.76%	161.9%
2.03	4.76%	166.7%
2.04	4.76%	171.4%
2.05	4.76%	176.2%
2.06	4.76%	180.9%
2.07	4.76%	185.7%
2.08	4.76%	190.5%
2.09	4.76%	195.2%
2.10	4.76%	200.0%

c) When the estimated bonus for revenue and EPS have been calculated, the two are added together. The resulting calculated total bonus is multiplied by the Cypress growth factor. The Cypress growth factor is calculated by taking the weighted average of the actual growth percentages of the selected competitor companies for their Fiscal year 1996, dividing that composite growth factor into the Cypress growth rate and taking the square of the result:

$$\text{CYPRESS GROWTH FACTOR} = \frac{\text{Cypress Growth Rate in FY96}}{\text{Composite Competitors' Growth Rate}}$$

d) The actual bonus is the sum of the estimated bonus for revenue and the estimated bonus for EPS, multiplied by the Cypress growth factor.

ARTICLE 5 - INCENTIVE LEVEL CONFIGURATION

A participant's possible bonus is divided into two parts; one portion based on their individual performance and one part based on the average performance of the Executive Staff against their CSFs.

5.1 Incentive levels for each plan participant will be defined to include weights for the following bonus plan elements:

- Corporate performance - bonus plan element based on company performance
- Individual CSF's - bonus plan scoring based on participant's accomplishment of their CSFs (average of individual's CSFs for the year)

5.2 Each plan participant will be given an incentive level expressed as a percent of Base Salary. The following incentive levels have been defined:

- 80% CEO, Senior VPs
- 30% VPs, Key Mgrs, Key Employees
- 20% Other Key Employees

5.3 Plan participants will be measured based on the following incentive plan elements:

	20% Bonus	30% Bonus	80% Bonus
Corporate performance	20%	40%	50%
Individual CSFs	80%	60%	50%

5.4 Participants can earn 0% to 100% scores on CSFs.

5.5 For the purpose of the KEBP, EPS is defined as Earnings Per Share reported by the company adjusted for extra-ordinary events not included in the fiscal year's Plan, i.e. 95.12 Plan.

5.6 Plan payout will be based on the plan participant's base salary at the end of the plan period.

5.7 Should an employee change jobs during the plan period, and the change result in a change in incentive level either as a result of a promotion or demotion, the new incentive level will be determined immediately and the employee will be notified in writing. In any case, changes in incentive level require the approval of the CEO.

5.8 Quarterly, VPs will present their CSF achievement at the Executive Staff. The CSF achievement of the direct reports to the VPs will be presented and discussed at the first Operations Review of each quarter. Results for the prior quarter and CSF plans for the current quarter are presented.

ARTICLE 6 - CALCULATION OF ACTUAL BONUS BASED ON CSF PERFORMANCE

6.1 A participant's actual bonus is calculated as:

$$\begin{matrix} \text{Participants} & & \text{Incentive Plan} & & \text{Actual} \\ \text{Possible} & \times & \text{Element for} & = & \text{Bonus for} \end{matrix}$$

Bonus		Company Performance			Company Performance	
Participants Possible Bonus	X	Incentive Plan Element for CSF Score	X	Individuals CSF Score	=	Actual Bonus for Individual CSFs
Actual Bonus for Company Performance		+		Actual Bonus for Individual CSFs	=	Total Actual Bonus

6.2 A 0% threshold will be defined for each CSF. This threshold, which could be timing and/or deliverable-based, is a point at which CSF score starts to be earned. If a participant does not reach/complete the minimum threshold, the CSF will be scored 0% (zero). Progress beyond the threshold earns the participant a pro-rated score up to 100%.

ARTICLE 7 - PAYMENT OF BONUS EARNED

7.1 At the end of the plan period, the CEO will present the actual bonuses [along with the computation of the estimated bonuses] to the Compensation Committee of the Board for their approval.

7.2 Actual bonuses for each participant will be calculated using the formulas above.

7.3 Actual bonuses will be paid in three installments, defined as follows:

50% of bonus earned at the end of the plan period will be paid one week after financial results are made public from the fiscal year concluded (tentatively January 31st).

25% of bonus earned will be paid 6 months after the first installment (tentatively July 31st).

25% of bonus earned will be paid in the following year coinciding with that plan year's first 50% payout (tentatively January 31st).

On the basis of this schedule, 1st payout for 1996 plan period is tentatively January 31, 1997.

ARTICLE 8 - ELIGIBILITY FOR PAYMENT

8.1 To be eligible for bonus payment, the participant must be employed by the company at the scheduled payment date. A participant who terminates employment prior to the payment date will forfeit the bonus including all future payment schedules, except as otherwise provided in this article.

8.2 Disability: If a participant is disabled, i.e. inability to perform any services for the company and eligible to receive disability benefits under the standards used by the company's disability benefit plan, the participant will receive an award representing a proration for each month of employment in the plan period.

8.3 Retirement: If a participant retires, i.e. permanent termination of employment with the company in accordance with the company's retirement policies, the participant will receive an award representing a proration

for each month of employment in the plan period.

- 8.4 Death: If a participant dies, awards will be paid to the beneficiary designated by the participant, otherwise, to the persons entitled thereto as determined by a court of competent jurisdiction. The award will be a proration of each month of employment in the plan period.
- 8.5 Lay-off: If a participant is terminated by lay-off during the plan period, no bonus will be awarded. If a participant is terminated by lay-off after the plan period but prior to a scheduled bonus payment, it will be the discretion of the CEO to pay bonus in full or on a prorated basis. No bonus will be paid to employees who are terminated for cause.
- 8.6 All qualified bonus payments including future schedule pursuant to para 8.2, 8.3 and 8.5 will be paid in lump-sum.
- 8.8 The CEO reserves the right to reduce the bonus award of a participant on a pro-rata basis to reflect a participant's leave of absence during the plan period.

#### ARTICLE 9 - MISCELLANEOUS

- 9.1 Unless as defined in article 8.4, no right or interest in this plan is transferable or assignable except by will or laws of descent and distribution.
- 9.2 Participation in this plan does not guarantee any right to continued employment with the Company.
- 9.3 Participation in the plan in a particular plan period is not a guarantee to participation in subsequent plan periods.
- 9.4 Management reserves the right to discontinue participation of any participant in this plan, at any time, and for whatever reasons.

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- 9.5 This plan is unfunded and the company does not intend to set up a sinking fund. Consequently, payments arising out of bonus earned shall be paid out of the company's general assets. Accounts recognized by the company for book purposes is not an indication of funds set aside for payment. Plan participants are considered as general creditors of the company and the obligation of the company is purely contractual and is not secured by any particular company asset.
- 9.6 The provision of this plan shall not limit the CEO and the Compensation Committee of the Board of Directors to modify said plan, or adopt such other plans on matters of compensation, bonus or incentive, which in its own judgment it deems proper, at any time.
- 9.7 This agreement is construed to be in accordance with the laws of the State of Delaware.

## CYPRESS SEMICONDUCTOR CORPORATION

EXHIBIT 11.1  
COMPUTATION OF NET INCOME PER COMMON SHARE AND DILUTIVE  
COMMON SHARE EQUIVALENTS  
(In thousands, except per share data)  
(Unaudited)

Three Months Ended	
Apr. 1, 1996	Apr. 3, 1995
-----	-----

PRIMARY:

-----		
Weighted average number of common shares outstanding	79,966	78,868
Common share equivalents from dilutive effect of outstanding stock options	3,452	8,355
	-----	-----
Weighted average number of common shares and dilutive common share equivalents outstanding	83,418	87,223
	=====	=====
Net income used in per share computation	\$ 34,277	\$ 9,105
	=====	=====
Net income per common and common equivalent share	\$ 0.41	\$ 0.11
	=====	=====

FULLY DILUTED:

-----		
Weighted average number of common shares outstanding	79,966	78,868
Common share equivalents from dilutive effect of outstanding stock options	3,452	8,799
Shares issuable upon conversion of convertible subordinated notes	7,940	7,940
	-----	-----
Weighted average number of common shares and dilutive common share equivalents outstanding	91,358	95,607
	=====	=====
Net income used in per share computation	\$ 35,191	\$ 9,999
	=====	=====
Net income per common and common equivalent share	\$ 0.39	\$ 0.11
	=====	=====

<ARTICLE> 5

<LEGEND> THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM  
THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED APRIL 1,  
1996.

</LEGEND>

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<OTHER-SE>	476,966
<TOTAL-LIABILITY-AND-EQUITY>	763,692
<SALES>	170,171
<TOTAL-REVENUES>	170,171
<CGS>	76,861
<TOTAL-COSTS>	76,861
<OTHER-EXPENSES>	21,416
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	1,647
<INCOME-PRETAX>	53,980
<INCOME-TAX>	19,703
<INCOME-CONTINUING>	34,277
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	34,277
<EPS-PRIMARY>	0.41
<EPS-DILUTED>	0.39