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

FORM 10-Q

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

For the quarterly period ended March 29, 2009

OR

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

Commission file number 1-10079

CYPRESS SEMICONDUCTOR CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The total number of outstanding shares of the registrant's common stock as of May 4, 2009 was 143,455,791.

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PART I—FINANCIAL INFORMATION

Forward-Looking Statements

The discussion in this Quarterly Report on Form 10-Q contains statements that are not historical in nature, but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including, but not limited to, statements related to our plans to define, design and develop new programmable products and solutions; our ability to expand the adoption of our flagship PSoC devices; our plans to expand our customer base; the markets we intend to pursue; our intentions to collaborate with our customers to build system-level solutions; our continued plans to pursue flexible manufacturing capabilities while abandoning long-standing tradition of independent process technology development; our plans to divest non-strategic, underperforming businesses while continuing to consider strategic relationships; our plans to transition our work to lower costs centers abroad; the impact of future personnel terminations and the expenses related thereto; our expectations related to our restructuring activities; our expectations regarding our active litigation matters and our intention and ability to defend ourselves in those litigation matters; the calculation of our unrecognized tax benefits, including events that could materially change the amount of such benefits; the impact of the distribution of Cypress's ownership in SunPower; our expectations related to the Simtek acquisition; the adequacy of our cash and working capital positions; our plans regarding research and development and selling, general and administrative expenses in future periods; the value of our investments in auction rate securities, and whether such declines are temporary in nature; and our expectations regarding our outstanding warranty liability, our plans to repurchase stock, plans with respect to disposal activities/assets, potential payments to Grace, and our expectations related to interest rate fluctuations. We use words such as "plan," "anticipate," "believe," "expect," "future," "intend" and similar expressions to identify forward-looking statements. Such forward-looking statements are made as of the date hereof and are based on our current expectations, beliefs and intentions regarding future events or our financial performance and the information available to management as of the date hereof. Except as required by law, we assume no responsibility to update any such forward-looking statements. Our actual results could differ materially from those expected, discussed or projected in the forward-looking statements contained in this Quarterly Report on Form 10-Q for any number of reasons, including, but not limited to, the state and future of the general economy and its impact on the markets we serve and our investments; our ability to transform our business with a leading portfolio of programmable products; the number and nature of our competitors; our ability to develop new products; the expected impact of the revenue model conversion of certain distributors in Asia on our revenues and gross margin; the changing environment and/or cycles of the semiconductor industry; the successful integration and achievement of the objectives of acquired businesses; our ability to efficiently manage our manufacturing facilities and achieve our cost goals emanating from flexible manufacturing; our success in our pending litigation matters, our ability to manage our investments and interest rate and exchange rate exposure; our ability to achieve liquidity in our investments, and the materialization of one or more of the risks set forth above or in Item 1A (*Risk Factors*) in this Quarterly Report on Form 10-Q.

Spin-Off of SunPower Corporation ("SunPower")

Upon completion of the spin-off of SunPower on September 29, 2008, Cypress no longer consolidated SunPower's financial results beginning in the fourth quarter of fiscal 2008 or addresses risk factors associated with SunPower's business, operations, financial condition and results of operations. For a detailed discussion of the risks affecting SunPower, investors should refer to SunPower's Quarterly Report on Form 10-Q for the three months ended March 29, 2009. The contents of such Form 10-Q are expressly not incorporated by reference herein.

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ITEM 1. FINANCIAL STATEMENTS

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 29, 2009	December 28, 2008
	(In thousands, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 210,391	$ 204,749
Short-term investments	13,351	33,043
Accounts receivable, net	72,102	91,943
Inventories, net	100,217	121,889
Other current assets	57,535	60,755
Total current assets	453,596	512,379
Property, plant and equipment, net	288,869	296,789
Goodwill	31,831	31,836
Intangible assets, net	17,667	18,678
Other long-term assets	73,773	76,077
Total assets	$ 865,736	$ 935,759
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 38,866	$ 42,570
Accrued compensation and employee benefits	35,515	44,115
Deferred revenues less cost of revenues	64,125	82,465
Income taxes payable	4,074	4,214
Convertible debt	27,362	27,023
Other current liabilities	59,335	63,595
Total current liabilities	229,277	263,982
Deferred income taxes and other tax liabilities	24,103	22,586
Other long-term liabilities	3,733	3,737
Total liabilities	257,113	290,305
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value, 650,000 and 650,000 shares authorized; 211,770 and 204,849 shares issued; 140,882 and 136,503 shares outstanding at March 29, 2009 and December 28, 2008, respectively	2,118	2,048
Additional paid-in-capital	2,107,894	2,044,679
Accumulated other comprehensive income	2,490	2,533
Accumulated deficit	(505,939)	(417,604)
	1,606,563	1,631,656
Less: shares of common stock held in treasury, at cost; 70,649 and 68,346 shares at March 29, 2009 and December 28, 2008, respectively	(997,940)	(986,202)
Total stockholders' equity	608,623	645,454
Total liabilities and stockholders' equity	$ 865,736	$ 935,759

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

CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands, except per-share amounts)	
Revenues	$139,309	$168,382
Costs and expenses:		
Cost of revenues	105,294	88,233
Research and development	50,146	44,150
Selling, general and administrative	60,715	57,168
Amortization of acquisition-related intangible assets	1,319	1,659
Restructuring charges	6,046	2,412
Total costs and expenses, net	223,520	193,622
Operating loss	(84,211)	(25,240)
Interest income	611	9,306
Interest expense	(416)	(9,562)
Other income (expense), net	(1,694)	(2,303)
Loss from continuing operations before income taxes	(85,710)	(27,799)
Income tax provision	(2,625)	(2,250)
Loss from continuing operations	(88,335)	(30,049)
Income from discontinued operations, net of taxes	—	6,965
Net loss	$ (88,335)	$ (23,084)
Net loss per share – basic:		
Continuing operations	$ (0.66)	$ (0.19)
Discontinued operations	—	0.04
Net loss per share – basic	$ (0.66)	$ (0.15)
Net loss per share – diluted:		
Continuing operations	$ (0.66)	$ (0.19)
Discontinued operations	—	0.04
Net loss per share – diluted	$ (0.66)	$ (0.15)
Shares used in net loss per share calculation:		
Basic	134,757	154,960
Diluted	134,757	154,960

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

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CYPRESS SEMICONDUCTOR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Cash flow from operating activities:		
Net loss	$ (88,335)	$ (23,084)
Less: income from discontinued operations, net of taxes	—	6,965
Loss from continuing operations	(88,335)	(30,049)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,151	19,979
Stock-based compensation expense	48,244	16,189
Non cash interest expense and other non cash expense on adoption of APB 14-1	398	6,499
Impairment of investments	1,730	213
Write-off of unamortized debt issuance costs	—	1,557
Interest on stock purchase assistance plan (“SPAP”) loans	—	(12)
Reduction in allowance for uncollectible SPAP loans	(8)	(88)
Restructuring charges	6,046	2,412
Loss on sale/retirement of property and equipment, net	329	2,544
Deferred income taxes	2,174	186
Changes in operating assets and liabilities, net of effects of acquisition and divestitures:		
Accounts receivable	19,840	6,610
Inventories	18,957	(16,183)
Other assets	3,739	41,949
Accounts payable and other liabilities	(25,729)	(46,214)
Deferred revenues less cost of revenues	(18,340)	4,582
Net cash provided by (used in) operating activities – continuing operations	(15,804)	10,174
Net cash used in operating activities – discontinued operations	—	(69,361)
Net cash used in operating activities	(15,804)	(59,187)
Cash flow from investing activities:		
Purchases of available-for-sale investments	(84)	(35,674)
Proceeds from sales or maturities of available-for-sale investments	17,762	106,658
Net contributions/(distributions) of deferred compensation plan	573	241
Acquisitions of property and equipment	(6,548)	(9,807)
Proceeds from settlement of SPAP loan principal	8	211
Proceeds from sales of property and equipment	3,510	44
Net cash provided by investing activities – continuing operations	15,221	61,673
Net cash used in investing activities – discontinued operations	—	(92,313)
Net cash provided by (used in) investing activities	15,221	(30,640)
Cash flow from financing activities:		
Repurchases of common shares	(6,506)	(277,073)
Withholdings of common shares for tax obligations on vested restricted stock	(5,232)	(4,321)
Proceeds from issuance of common shares under employee stock plans	17,963	6,101
Net cash provided by (used in) financing activities – continuing operations	6,225	(275,293)
Net cash provided by financing activities – discontinued operations	—	2,165
Net cash provided by (used in) financing activities	6,225	(273,128)
Effect of exchange rate changes on cash and cash equivalents- discontinued operations	—	6,817
Net increase (decrease) in cash and cash equivalents	5,642	(356,138)
Cash and cash equivalents, beginning period	204,749	1,093,657
Cash and cash equivalents, end of period	210,391	737,519
Less cash and cash equivalents of discontinued operations, end of period	—	(132,522)
Cash and cash equivalents of continuing operations, end of period	$210,391	$ 604,997

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Years

Cypress Semiconductor Corporation ("Cypress" or the "Company") reports on a fiscal-year basis and we end our quarters on the Sunday closest to the end of the applicable calendar quarter, except in a 53-week fiscal year, in which case the additional week falls into the fourth quarter of that fiscal year. Fiscal 2009 has 53 weeks and fiscal 2008 had 52 weeks. The first quarter of fiscal 2009 ended on March 29, 2009 and the first quarter of fiscal 2008 ended on March 30, 2008.

Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to state fairly the financial information included therein. The financial data should be read in conjunction with the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

On September 29, 2008, we completed the spin-off of SunPower Corporation ("SunPower"), a majority-owned subsidiary through the distribution of a tax-free stock dividend to Cypress's stockholders. As a result, our historical financial statements have been restated to account for SunPower as a discontinued operation for all periods presented in this Quarterly Report on Form 10-Q. See Note 2 for further discussion.

Unless otherwise indicated, the Notes to Condensed Consolidated Financial Statements relate to the discussion of Cypress's continuing operations.

Certain prior year balances have been restated to conform to current year presentation, including the retrospective application of adopting FSP APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)", ("FSP APB 14-1"). Under FSP APB 14-1, the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion must be accounted for separately in a manner reflective of our nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. We have retrospectively applied this change in accounting to affected accounts for all periods presented. Refer to Note 10 for more information.

The consolidated results of operations for the three months ended March 29, 2009 are not necessarily indicative of the results to be expected for the full fiscal year.

Recently Adopted and Recently Issued Accounting Standards

Effective December 31, 2007, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" ("SFAS No. 157"). In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which deferred the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"), which clarifies the application of SFAS No. 157 as it relates to the valuation of financial assets in an inactive market. FSP FAS 157-3 was effective upon issuance.

In May 2008, the FASB issued FSP APB 14-1, which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. FSP APB 14-1 specifies that an issuer of such instruments should separately account for the liability and equity components of the instruments in a manner that reflects the issuer's non-convertible debt borrowing rate when interest costs are recognized in subsequent periods. FSP APB 14-1 was effective for fiscal years beginning after December 15, 2008, and retrospective application is required for all periods presented. As a result of our adoption this pronouncement we recorded additional non-cash interest expense of approximately $0.4 million and $6.5 million during the three months ended March 29, 2009 and March 30, 2008, respectively.

In April 2008, the FASB issued FSP FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (Revised 2007), “Business Combinations,” and other U.S. generally accepted accounting principles. FSP FAS 142-3 was effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We adopted this pronouncement in the first quarter of fiscal 2009 and the adoption of this pronouncement did not have a material impact on our condensed consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of SFAS No. 133” (“SFAS No. 161”), which expands the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 specifically requires entities to provide enhanced disclosures addressing: (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. SFAS No. 161 was effective for fiscal years and interim periods beginning after November 15, 2008. We adopted this pronouncement in the first quarter of fiscal 2009 and we expanded the disclosures related to our derivative instruments, as applicable.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity’s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) was effective for fiscal years beginning after December 15, 2008. We adopted this pronouncement in the first quarter of fiscal 2009 and the impact on our condensed consolidated financial statements will depend upon the nature, terms and size of the acquisitions we could consummate in the future.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51” (“SFAS No. 160”), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent’s ownership interest in a subsidiary and the deconsolidation of a subsidiary. SFAS No. 160 was effective for fiscal years beginning after December 15, 2008. We adopted this pronouncement in the first quarter of fiscal 2009 and the adoption did not have a material impact on our condensed consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 132(R)-1, “*Employers’ Disclosures about Postretirement Benefit Plan Assets*“ (“FSP 132(R)-1”). This FSP amends SFAS No. 132(R) to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP requires disclosures surrounding how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies. Additional disclosures include (a) the major categories of plan assets, (b) the inputs and valuation techniques used to measure the fair value of plan assets, and (c) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period and the significant concentrations of risk within plan assets. The disclosures shall be provided for fiscal years ending after December 15, 2009. We are currently evaluating the impact of FSP 132(R)-1.

In April 2009, the FASB issued FSP 157-4, “*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Order”*. FSP 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS No.157 *Fair Value Measurements.* The FSP relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms what SFAS No. 157 states is the objective of fair value measurement —to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The FSP will be effective for interim and annual periods ending after June 15, 2009. We are currently evaluating the potential impact of FSP 157-4.

In April 2009, the FASB issued FSP No. 141R-1 “*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies”* (“FSP 141R-1”). FSP 141R-1 amends the provisions in FASB Statement 141R for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in Statement 141R and instead carries forward most of the provisions in SFAS 141 for acquired contingencies. FSP 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after December 15, 2008. We are currently evaluating the impact of the implementation of FSP 141R-1.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "*Interim Disclosures about Fair Value of Financial Instruments",* which amends FASB Statement No. 107*, "Disclosures about Fair Value of Financial Instruments"*, (SFAS 107), to require an entity to provide interim disclosures about the fair value of all financial instruments within the scope of SFAS 107 and to include disclosures related to the methods and significant assumptions used in estimating those instruments. This FSP is effective for interim and annual periods ending after June 15, 2009. We are currently evaluating the impact the adoption of this FSP will have on our financial statements and related disclosures.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2 "*Recognition of Other-Than-Temporary-Impairments*". This FSP amends the other-than-temporary impairment guidance for debt securities and improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. We are currently evaluating the impact of the implementation of FSP FAS 115-2.

NOTE 2. SUNPOWER

The following table summarizes our ownership interest in SunPower:

	As of	
	March 29, 2009	March 30, 2008
Number of shares of SunPower Class B common stock owned by Cypress	—	44.5 million
As a percentage of SunPower's outstanding capital stock	—	56%
As a percentage of SunPower's outstanding capital stock on a fully diluted basis	—	52%
As a percentage of total voting power of SunPower's outstanding capital stock	—	90%

Spin-Off of SunPower

In the third quarter of 2008, a committee of our Board of Directors (the "Board") approved the distribution of the SunPower Class B common stock held by us to Cypress's stockholders. On September 29, 2008, the first day of our fourth quarter of fiscal 2008, we completed the distribution of 42.0 million shares of SunPower Class B common stock to our stockholders (the "Spin-Off"). The distribution was made pro rata to our stockholders of record as of the close of trading on the New York Stock Exchange on September 17, 2008 (the "Record Date"). As a result of the Spin-Off, each of our stockholders received approximately 0.274 of a share of SunPower Class B common stock for each share of Cypress common stock held as of the Record Date. Our stockholders received cash in lieu of fractional shares for amounts of less than one SunPower share. The market value of the distribution was approximately $2.6 billion based on the closing price of SunPower's common stock on September 29, 2008.

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

Discontinued Operations:

In accordance with SFAS No. 144, our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Cash Flows.

The following table summarizes the results of operations related to the discontinued operations through March 30, 2008:

(In thousands)	
Revenue	$273,701
Costs and expenses, net	259,853
Income from discontinued operations before income taxes and minority interest	13,848
Income tax provision	(1,805)
Minority interest in income from discontinued operations	(5,078)
Income from discontinued operations, net of income taxes and minority interest	$ 6,965

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Adjustments to Cypress's Stock Plans:

See Note 8 for a discussion of the adjustments approved by our Board to our stock plans as a result of the Spin-Off.

Amended Tax Sharing Agreement:

See Note 13 for a discussion of the amended tax sharing agreement between us and SunPower as a result of the Spin-Off.

NOTE 3. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The carrying amount of goodwill at March 29, 2009 was $31.8 million in the Consumer and Computation Division ("CCD") and was unchanged from the balance at December 28, 2008. CCD is the only reportable business segment with goodwill.

Intangible Assets

The following tables present details of our intangible assets:

As of March 29, 2009	Gross	Accumulated Amortization	Net
		(In thousands)	
Purchased technology	$100,134	$ (86,721)	$13,413
Patents, tradenames, customer relationships and backlog	22,009	(21,607)	402
Other	4,297	(4,079)	218
Total acquisition-related intangible assets	126,440	(112,407)	14,033
Non-acquisition related intangible assets	8,034	(4,400)	3,634
Total intangible assets	$134,474	$(116,807)	$17,667

As of December 28, 2008	Gross	Accumulated Amortization	Net
		(In thousands)	
Purchased technology	$100,134	$ (86,040)	$14,094
Patents, tradenames, customer relationships and backlog	22,009	(21,007)	1,002
Other	4,297	(4,041)	256
Total acquisition-related intangible assets	126,440	(111,088)	15,352
Non-acquisition related intangible assets	7,474	(4,148)	3,326
Total intangible assets	$133,914	$(115,236)	$18,678

As of March 29, 2009, the estimated future amortization expense of intangible assets was as follows:

(In thousands)	
2009 (remaining nine months)	$ 3,295
2010	3,855
2011	3,734
2012	3,361
2013 and thereafter	3,422
Total future amortization expense	$17,667

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NOTE 4. RESTRUCTURING

We recorded restructuring charges of $6.0 million and $2.4 million during the three months ended March 29, 2009 and March 30, 2008, respectively. The amount recorded during the three months ended March 29, 2009 included a provision of $7.7 million for the Fiscal 2008/9 Restructuring Plan offset by a credit of $1.7 million for the Fiscal 2007 Restructuring Plan.

Fiscal 2008/9 Restructuring Plan

During the third quarter of fiscal 2008, we initiated a restructuring plan, as part of a company-wide cost saving initiative aimed to reduce operating costs in response to the economic downturn, which continued into the first quarter of 2009 (“Fiscal 2008/9 Restructuring Plan”). In accordance with SFAS No. 112, “Employers’ Accounting for Post Employment Benefits” (“SFAS No. 112”) and SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS No. 146”), at March 29, 2009 we recorded a total of $19.6 million under the Fiscal 2008/9 Restructuring Plan, of which $19.5 million was related to personnel costs and $0.1 million was related to other exit costs. The determination of when we accrue for severance and benefits costs, and which standard applies, depends on whether the termination benefits are provided under a one-time benefit arrangement as defined by SFAS No. 146 or under an on-going benefit arrangement as described by SFAS No. 112. Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Balance as of December 28, 2008	$ 7,374
Provision	7,741
Non cash forgiveness of employee loans	(73)
Cash payments	(3,214)
Balance as of March 29, 2009	$11,828

Upon completion of our restructuring activities we expect to eliminate approximately 758 positions of which approximately 430 positions are manufacturing related positions and 328 are Corporate and other related positions.

As of March 29, 2009 approximately 345 employees have been terminated and the remaining employee terminations are currently expected to be completed by the end of the third quarter of fiscal 2009.

Fiscal 2007 Restructuring Plan

During the fourth quarter of fiscal 2007, we implemented a restructuring plan to exit our manufacturing facility located in Round Rock, Texas (“Fiscal 2007 Restructuring Plan”). The Fiscal 2007 Restructuring Plan included the termination of employees and the disposal of assets, primarily consisting of land, building and manufacturing equipment, located in the Texas facility. The Fiscal 2007 Restructuring Plan did not involve the discontinuation of any material product lines or other functions.

To date, we recorded total restructuring charges of $8.8 million related to the Fiscal 2007 Restructuring Plan, of which a credit of $1.7 million was recorded in the first quarter of fiscal 2009, $9.9 million was recorded in fiscal 2008 and $0.6 million was recorded in fiscal 2007. The $1.7 million credit recorded in the first quarter of fiscal 2009 relates to the sale of equipment located at our Texas facility. Of the total restructuring charges, $7.9 million was related primarily to personnel costs and $0.9 million was related to property, plant and equipment and other exit costs.

Personnel Costs:

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Balance as of December 28, 2008	$ 2,721
Additional provision	518
Cash payments	(2,476)
Balance as of March 29, 2009	$ 763

We completed the termination of the remaining employees in the first quarter of fiscal 2009. These employees were primarily in manufacturing functions, and the remaining balance related to benefits is expected to be paid by the third quarter of fiscal 2009.

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Property, Plant and Equipment:

The Texas facility ceased operations in the fourth quarter of fiscal 2008. As our management has committed to a plan to dispose of the assets associated with the facility by sale, we have classified the assets as held for sale and valued the assets at the lower of their carrying amount or fair value. Fair value was determined by market prices estimated by third parties that specialize in sales of such assets. Based on this analysis in fiscal 2008, we recorded a write-down of $1.9 million related to the assets and $1.2 million of related disposal and other facility costs.

The following table summarizes the net book value of the remaining restructured assets that were classified as held for sale and included in “Other current assets” in the Condensed Consolidated Balance Sheets as of March 29, 2009 and December 28, 2008:

	March 29, 2009	December 28, 2008
	(In thousands)	
Land	$ 994	$ 994
Equipment	375	1,112
Buildings and leasehold improvements	6,430	6,430
Total property, plant and equipment, net	$ 7,799	$ 8,536

We expect to complete the disposal of the remaining restructured assets by the fourth quarter of fiscal 2009.

NOTE 5. BALANCE SHEET COMPONENTS

Accounts Receivable, Net

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Accounts receivable, gross	$77,381	$ 96,027
Allowance for doubtful accounts receivable and sales returns	(5,279)	(4,084)
Total accounts receivable, net	$72,102	$ 91,943

Inventories, Net

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Raw materials	$ 16,724	$ 16,989
Work-in-process	60,457	76,049
Finished goods	23,036	28,851
Total inventories, net	$100,217	$ 121,889

Other Current Assets

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Deferred tax assets	$ 541	$ 1,233
Prepaid expenses	20,743	24,093
Assets held for sale (see Note 4)	7,799	8,536
Other current assets	28,452	26,893
Total other current assets	$57,535	$ 60,755

Other Long-Term Assets

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Employee deferred compensation plan	$18,999	$ 20,246
Investments:		
Debt securities	34,313	35,701
Equity securities	2,012	1,788
Other assets	18,449	18,342
Total other long-term assets	$73,773	$ 76,077

Other Current Liabilities

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Employee deferred compensation plan	$18,688	$ 20,478
Accrued sales representative commissions	2,030	2,686
Accrued royalties	4,355	4,385
Restructuring accrual	12,843	10,095
Other current liabilities	21,419	25,951
Total other current liabilities	$59,335	$ 63,595

Deferred Income Taxes and Other Tax Liabilities

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Deferred income taxes	$ 1,780	$ 540
Non-current tax liabilities	22,323	22,046
Total deferred income taxes and other tax liabilities	$24,103	$ 22,586

NOTE 6. FAIR VALUE MEASUREMENTS

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The following table presents the fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of March 29, 2009:

	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Investments:				
Commercial paper	$ —	$ —	$ 615	$ 615
Money market funds	177,664	—	—	177,664
Treasury bills	6,149	—	—	6,149
Corporate notes/bonds	—	3,798	—	3,798
Auction rate securities	—	—	33,698	33,698
Marketable equity securities	4,189	—	—	4,189
Employee deferred compensation plan	18,999	—	—	18,999
Derivative instruments:				
Foreign currency forward contracts	—	119	—	119
Total financial assets	$207,001	$3,917	$34,313	$245,231
Financial Liabilities				
Employee deferred compensation plan	$ 18,688	$ —	$ —	$ 18,688
Total financial liabilities	$ 18,668	$ —	$ —	$ 18,688

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The following table presents the fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of December 28, 2008:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Financial Assets				
Investments:				
Commercial paper	$ —	$ 4,992	$ 812	$ 5,804
Money market funds	176,556	—	—	176,556
U.S. treasuries	6,175	—	—	6,175
Corporate notes / bonds	—	22,977	—	22,977
Auction rate securities	—	—	34,890	34,890
Marketable equity securities	4,452	—	—	4,452
Employee deferred compensation plan	20,246	—	—	20,246
Derivative instruments:				
Foreign currency forward contracts	—	141	—	141
Total financial assets	$207,429	$28,110	$35,702	$271,241
Financial Liabilities				
Employee deferred compensation plan	$ 20,478	$ —	$ —	$ 20,478
Total financial liabilities	$ 20,478	$ —	$ —	$ 20,478

Valuation Techniques:

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

If quoted prices in active markets for identical assets or liabilities are not available to determine the fair value of our financial instruments, then we use observable inputs including benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. The investments classified as Level 2 primarily consist of commercial paper (with the exception of one investment which is classified as Level 3) and corporate notes/bonds. In addition, we have derivative instruments that are classified as Level 2 financial assets. We determine the fair value of these instruments based on modeling techniques that include inputs such as market volatilities, spot rates and interest differentials from published sources.

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

Auction Rate Securities:

As of March 29, 2009, we have classified all of our auction rate securities as Level 3 financial instruments. Auction rate securities are investments with contractual maturities generally between 20 and 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations with interest rates resetting every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the U.S. Federal Department of Education.

As of March 29, 2009, 95% of the auction rate securities held by us were rated as either AAA or Aaa and the remaining 5% of the securities were rated Baa3 by the major independent rating agencies.

As of March 29, 2009, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. Currently, these failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, we have classified our auction rate securities totaling $33.7 million as long-term investments as of March 29, 2009.

We performed analyses to assess the fair value of our auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at March 29, 2009 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and

- discount rates of 3.6% - 5.8%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities should be valued at approximately 87% of their stated par value as of March 29, 2009. We determined that the decline in value was other-than-temporary and we recorded an impairment charge of $1.4 million in fiscal 2009. We do not believe that the lack of liquidity of our auction rate securities will have a material impact on our overall ability to meet our cash requirements for the foreseeable future.

Commercial Paper:

As of March 29, 2009, we have classified one commercial paper investment totaling $0.8 million as a Level 3 financial asset. The investment was issued through a structured investment vehicle that was impaired as the issuer was unable to raise sufficient funding to cover maturing obligations.

The following table presents a summary of changes in our Level 3 investments measured at fair value on a recurring basis as of March 29, 2009:

	Auction Rate Securities	Commercial Paper	Total
		(In thousands)	
Balance as of December 28, 2008	$ 34,890	$ 812	$35,702
Unrealized gain	201	—	201
Impairment loss recorded in “Other income (expense), net”	(1,393)	(197)	(1,590)
Balance as of March 29, 2009	$ 33,698	$ 615	$34,313

The following table presents a summary of changes in our Level 3 investments measured at fair value on a recurring basis as of March 28, 2008:

	Auction Rate Securities	Commercial Paper	Total
		(In thousands)	
Balance as of December 30, 2007	$ —	$ 1,065	$ 1,065
Transfer from Level 2	38,749	—	38,749
Impairment loss recorded in “Other income (expense), net”	—	(112)	(112)
Unrealized loss recorded in “Accumulated other comprehensive income”	(1,392)	—	(1,392)
Balance as of March 30, 2008	$ 37,357	$ 953	$38,310

Assets Measured at Fair Value on a Non-Recurring Basis

The following table presents our fair value hierarchy for our investments measured at fair value on a non-recurring basis and the impairment loss related to these investments:

					Impairment Loss Recorded in “Other Income (Expense), Net”	
	Level 1	Level 2	Level 3	Total as of March 29, 2009	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008
				(In thousands)		
Non-marketable equity securities	$ —	$ —	$1,227	$ 1,227	$ —	$ —

We measure our equity investments in privately held companies at fair value on a non-recurring basis. The balance of the investments was $1.2 million as of March 29, 2009. These investments are measured at fair value when they are deemed to be other-than-temporarily impaired. We measured the fair value of such investments using a combination of the income approach and the market approach. The income approach included a discounted cash flow analysis, which required the use of unobservable inputs, including assumptions of projected revenues, expenses, capital spending and other costs, as well as a discount rate calculated based on the risk profile of the investees. The market approach included using financial metrics and ratios of comparable public companies. All of our impaired non-marketable equity investments were classified as Level 3 instruments, as we use unobservable inputs to value these investments and the valuation requires significant management judgment. The valuation of our non-marketable equity investments also takes into account the movements of the equity and venture capital markets, recent financing activities by the investees, changes in the interest rate environment, the investees' capital structure, liquidation preferences for the investees' capital, and other economic variables.

NOTE 7. INVESTMENTS

Available-For-Sale Securities

The following tables summarize our available-for-sale investments:

As of March 29, 2009	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Cash equivalents:				
Money market funds	$177,664	$ —	$ —	$177,664
Total cash equivalents	177,664	—	—	177,664
Short-term investments:				
Corporate notes/bonds	3,795	3	—	3,798
Treasury bills	6,013	136	—	6,149
Marketable equity securities	1,053	2,351	—	3,404
Total short-term investments	10,861	2,490	—	13,351
Long-term investments:				
Auction rate securities	33,497	201	—	33,698
Commercial paper	615	—	—	615
Marketable equity securities	1,187	—	(402)	785
Total long-term investments	35,299	201	(402)	35,098
Total available-for-sale securities	$223,824	$ 2,691	$ (402)	$226,113

As of December 28, 2008	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Cash equivalents:				
Commercial paper	$ 4,992	$ —	$ —	$ 4,992
Money market funds	176,556	—	—	176,556
Total cash equivalents	181,548	—	—	181,548
Short-term investments:				
U.S. treasuries	5,998	177	—	6,175
Corporate notes/bonds	23,057	41	(121)	22,977
Marketable equity securities	1,188	2,703	—	3,891
Total short-term investments	30,243	2,921	(121)	33,043
Long-term investments:				
Auction rate securities	34,890	—	—	34,890
Commercial paper	812	—	—	812
Marketable equity securities	1,187	—	(626)	561
Total long-term investments	36,889	—	(626)	36,263
Total available-for-sale securities	$248,680	$ 2,921	$ (747)	$250,854

Currently, the available-for-sale debt investments that we hold are all high investment grade. The unrealized losses on our investments were due primarily to changes in interest rates and market and credit conditions of the underlying securities. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, except for the impairment recorded in the respective periods, we did not consider these investments to be other-than-temporarily impaired as of March 29, 2009 and December 28, 2008.

For individual marketable equity securities with unrealized losses, we evaluated the near-term prospects in relation to the severity and duration of the impairment. Based on that evaluation and our ability and intent to hold these investments for a reasonable period of time, we did not consider these investments to be other-than-temporarily impaired as of March 29, 2009 and December 28, 2008.

As of March 29, 2009, contractual maturities of our available-for-sale, non-equity investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	$180,721	$180,724
Maturing in one to three years	6,751	6,887
Maturing in more than three years	34,112	34,313
Total	$221,584	$221,924

Realized gains and losses from sales of available-for-sale, non-equity investments were immaterial for all periods presented.

Proceeds from sales or maturities of available-for-sale investments were $17.8 million and $106.7 million for the three months ended March 29, 2009 and March 30, 2008, respectively.

Investments in Equity Securities

The following table summarizes our equity investments:

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Short-term investments:		
Marketable equity securities	$ 3,404	$ 3,891
Long-term investments:		
Marketable equity securities	785	561
Non-marketable equity securities	1,227	1,227
Total long-term investments	2,012	1,788
Total equity investments	$ 5,416	$ 5,679

Sale of Equity Investments:

We did not sell any equity investments during any of the fiscal periods presented.

Impairment of Investments

The following table summarizes the impairment loss recorded in the Condensed Consolidated Statements of Operations:

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Debt securities:		
Commercial paper	$ 196	$ 112
Auction rate securities	1,393	—
Corporate bonds	141	—
Equity securities:		
Marketable equity securities	—	101
Total impairment loss	$ 1,730	$ 213

Employee Deferred Compensation Plan

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

We account for the deferred compensation plan in accordance with EITF Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." In accordance with EITF Issue No. 97-14, the assets are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income. As of March 29, 2009 and December 28, 2008, the fair value of the assets was $19.0 million and $20.2 million, respectively, and the fair value of the liabilities were $18.7 million and $20.5 million, respectively.

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

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Changes in fair value of assets recorded in:		
Other expense	$ (674)	$ (2,536)
Changes in fair value of liabilities recorded in:		
Cost of revenues	62	943
Research and development expenses	95	1,085
Selling, general and administrative expenses	492	829
Total income (expense), net	$ (25)	$ 321

NOTE 8. STOCK-BASED COMPENSATION

Modification of Outstanding Employee Equity Awards

As discussed in Note 2, in fiscal 2008, the Board in conjunction with the Spin-Off, approved certain adjustments to our 1994 and 1999 Stock Plans (together, the "Plans"). Specifically, the Board approved amendments to make proportionate adjustments to, among other things, outstanding employee equity awards, including stock options, restricted stock units and restricted stock awards, under the Plans to preserve the intrinsic value of the awards before and after the Spin-Off. These changes included a proportionate adjustment in the number of shares issuable pursuant to the outstanding awards and the per-share exercise price of the options.

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

In accordance with SFAS No. 123 (revised 2004), "Share-Based Payment," the modification of the outstanding employee equity awards and the ESPP resulted in additional non-cash stock-based compensation. The amount was measured based upon the difference between the fair value of the awards immediately before and after the modification. Of the total additional non-cash stock-based compensation, $13.4 million was recognized in the first quarter of fiscal 2009 and the remaining $69.5 million will be recognized over the remaining vesting periods on an accelerated basis pursuant to FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans."

We estimated the fair value of the stock options and the ESPP using the Black-Scholes valuation model with the following assumptions:

	Stock Options	ESPP
Expected life	0.5 - 9.9 years	0.5 - 1.5 years
Volatility	43.5% - 50.5%	43.7% - 46.6%
Risk-free interest rate	2.00% - 3.89%	2.00% - 2.30%
Dividend yield	0.00%	0.00%

The fair value of the restricted stock units and the restricted stock awards was determined based on our stock price on the date of the modification.

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The following tables summarize the stock-based compensation expense, including the expense related to the modification discussed above, by line item recorded in the Condensed Consolidated Statements of Operations:

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Cost of revenues	$14,277	$ 3,617
Research and development expenses	12,612	4,911
Selling, general and administrative expenses	21,355	7,661
Total stock-based compensation expense	$48,244	$16,189

Consolidated cash proceeds from the issuance of shares under the employee stock plans were approximately $18.0 million for the three months ended March 29, 2009 and $6.1 million for the three months ended March 30, 2008. We did not recognize a benefit from stock option exercises in the three months ended March 29, 2009 or March 30, 2008.

As of March 29, 2009 and March 30, 2008, stock-based compensation capitalized in inventories totaled $8.3 million and $5.4 million, respectively.

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

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Stock options	$18,160	$ 6,492
Restricted stock units and restricted stock awards	25,191	8,247
ESPP	4,893	1,450
Total stock-based compensation expense	$48,244	$16,189

The following table summarizes the unrecognized stock-based compensation balance by type of award at March 29, 2009:

(In thousands)		Weighted-Average Amortization Period
		(In years)
Stock options	$ 76,795	2.35
Restricted stock units and restricted stock awards	81,036	2.57
ESPP	7,820	0.55
Total unrecognized stock-based compensation balance	$165,651	2.37

Equity Incentive Program Related to Cypress's Common Stock

As of March 29, 2009, approximately 14.2 million stock options or 7.6 million restricted stock units and restricted stock awards were available for grant under the Amended 1994 Stock Plan, and no stock options were available for grant under the 1999 Stock Option Plan as it expired in March 2009.

Stock Options:

The following table summarizes our stock option activities:

	Shares	Weighted-Average Exercise Price Per Share
	(In thousands, except per- share amount)	
Options outstanding as of December 28, 2008	70,273	$ 4.43
Granted	5,252	$ 6.08
Exercised	(3,109)	$ 3.54
Forfeited or expired	(1,910)	$ 5.00
Options outstanding as of March 29, 2009	70,506	$ 4.57
Options exercisable as of March 29, 2009	41,546	$ 4.17

Restricted Stock Units and Restricted Stock Awards:

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

	Shares	Weighted-Average Fair Value per Share
	(In thousands, except per- share amounts)	
Balance as of December 28, 2008	28,745	$ 5.78
Granted	501	$ 5.64
Vested	(2,929)	$ 5.88
Forfeited	(3,649)	$ 5.30
Balance as of March 29, 2009	22,668	$ 5.84

The balance as of March 29, 2009 included approximately 13.5 million performance-based restricted stock units and restricted stock awards granted under the Amended 1994 Stock Plan. The awards were issued to certain senior-level employees of Cypress and can be earned ratably over three to four years.

On March 12, 2009, the Compensation Committee (the "Committee") approved the performance milestone achievements for 2008. The Committee, in its review of the performance achievements under 2008 PARS and other factors, exercised its discretion under our 1994 Stock Plan and adjusted the calculation methodology for certain performance milestones under the 2008 PARS. The adjusted methodology allowed us to calculate performance achievements based on financial operational results for the first three fiscal quarters of 2008 with respect to 75% of the participants targeted PARS, and the performance calculations for the remaining 25% targeted PARS to be based on financial and operations results of the fourth quarter of 2008. The targeted gross margins for the fourth fiscal quarter of 2008 were adjusted to account for product mix and under loading of the our manufacturing facilities as we proactively took steps to manage down inventory in a rapidly declining market. In exercising its discretion, the Committee considered the sharp global economic downturn which hit heavily in the fourth quarter of 2008; a sharp downturn not foreseen in industry forecasts or the Cypress plan for 2008. The Committee also factored in the impact of the final separation of SunPower Corporation, a major project and point of discontinuity in the operations of the company, as part of the basis for the exercise of its discretion. As a result we recorded additional stock-based compensation of approximately $11.1 million in the three months ended March 29, 2009.

During the first quarter of fiscal 2009, the Compensation Committee of the Board established the milestones for the first half of fiscal 2009 for approximately 2.6 million of the outstanding performance-based awards. These performance-based milestones include the achievement of certain performance results of our common stock appreciation target against the Philadelphia Semiconductor Sector Index ("SOXX"), certain levels of non-GAAP free cash flows and certain levels of non-GAAP operating expense. These awards are earned upon the Committee's certification that the specified market and/or performance milestones have been achieved. If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods. The performance milestones for the second half of fiscal 2009 for the remaining 2.6 million of performance-based awards for fiscal 2009 have not been set by the Committee.

The fair value of the shares with the market-condition milestone was determined using a Monte Carlo valuation methodology with the following weighted-average assumptions: volatility of our common stock of 69.6%; volatility of the SOXX of 57.4%; correlation coefficient of 0.69; and risk-free interest rate of 0.3%. The fair value of the shares with the performance-related milestones was equivalent to the grant-date fair value of our common stock.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Lease Guarantees

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

Pursuant to a master lease agreement, Grace has leased certain semiconductor manufacturing equipment from a financing company. In conjunction with the master lease agreement, we have entered into a series of guarantees with the financing company for the benefit of Grace. Under the guarantees, we have agreed to unconditional guarantees to the financing company of the rental payments payable by Grace for the leased equipment under the master lease agreement. If Grace fails to pay any of the quarterly rental payments, we will be obligated to pay such outstanding amounts within 10 days of a written demand from the financing company. If we fail to pay such amount, interest will accrue at a rate of 9% per annum on any unpaid amounts. To date, we have not been required to make any payments under these guarantees. As of March 2009 we updated our assessment of the likelihood that we would have to settle the outstanding lease payments and we determined that is was not probable. As a result we have not recorded any liability relating to outstanding lease payments.

Pursuant to the guarantees, we issued irrevocable letters of credit to secure the rental payments under the guarantees in the event a demand is made by the financing company on us. The amount available under the letters of credit will decline according to schedules mutually agreed upon by us and the financing company. If we default, the financing company will be entitled to draw on the letters of credit. In connection with the guarantees, we were granted options to purchase ordinary shares of Grace. As of March 29, 2009, we determined that the fair value of the guarantees and the options was not material to our condensed consolidated financial statements.

The following table summarizes the terms and status of the guarantees:

			Outstanding Rental Payments			Outstanding Irrevocable Letters of Credits			
				As of			As of		
Fiscal Year	Number of Guarantees	Lease Term of Equipment Under Each Guarantee	At Inception	March 29, 2009	December 28, 2008	At Inception	March 29, 2009	December 28, 2008	Grace Options Granted to Cypress
			(In thousands)						
2006	One	36 months	$ 8,255	$ 2,064	$ 2,752	$ 6,392	$ 2,263	$ 2,829	2,272
2007	Five	36 months	42,278	18,304	21,828	32,726	17,896	20,793	17,097
2008	One	36 months	10,372	6,915	7,778	7,918	6,309	7,010	6,009
			$ 60,905	$27,283	$ 32,358	$ 47,036	$26,468	$ 30,632	25,378

Product Warranties

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

The following table presents our warranty activities, including amounts recorded in the allowance for sales returns:

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Beginning balance	$ 3,341	$ 3,074
Settlements	(1,879)	(1,090)
Provisions	2,796	629
Ending balance	$ 4,258	$ 2,613

Litigation and Asserted Claims

In April 2008, we, along with several other companies, were named in an International Trade Commission ("ITC") action filed by Agere/LSI Corporation ("LSI"), which alleges infringement of Agere/LSI's patent no. 5,227,335. Agere/LSI filed the same patent infringement claim concurrently in the federal district court in Marshall, Texas. On March 27, 2009, we signed a settlement and patent license agreement with LSI. This agreement settled all current and past claims and the settlement did not result in a material impact to our results of operations.

In October 2006, we received a grand jury subpoena issued from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice ("DOJ") into possible antitrust violations in the static random access memory ("SRAM") industry. In December 2008, the DOJ notified us that it was closing its investigation of the SRAM market. No allegations or charges were made against us during the investigation. In December 2007, the

Korean Federal Trade Commission ("KFTC") also opened a criminal investigation into this same market. Subsequent to the end of the quarter, we were notified that the KFTC has also closed its investigation. No allegations or charges were made against us during either of these investigations.

In connection with the DOJ investigation discussed above, in October 2006, we, along with a majority of the other SRAM manufacturers, were named in numerous consumer class action suits that have now been consolidated in the U.S. District Court for the Northern District of California. The cases variously allege claims under the Sherman Antitrust Act, state antitrust laws, unfair competition laws and unjust enrichment. The lawsuits seek restitution, injunction and damages in an unspecified amount. The parties are engaged in document production and the class certification process. We were also named in purported consumer antitrust class action suits in three provinces of Canada. The Florida Attorney General's office also filed a civil investigative demand on behalf of all Florida SRAM consumers. We have produced documents to the Florida Attorney General that are consistent with the production made to the DOJ, and no further requests have been made of us. We believe we have meritorious defenses to these allegations and will vigorously defend ourselves in these matters.

We, along with several other co-defendants, are party to trade secret misappropriation litigation filed by Silvaco Data Systems in the Santa Clara Superior Court in May 2004. The cell characterization software at issue in this case was previously purchased by us and the co-defendants from Circuit Semantics, Inc., a business no longer in operation. Prior to filing suit against us, Silvaco sued and later settled with Circuit Semantics for misappropriation of certain of Silvaco's trade secrets. Silvaco's complaint against us alleges that we misappropriated Silvaco's trade secrets by using the Circuit Semantics software previously purchased by us. On February 10, 2009, summary judgment was granted in favor of us on the trade secret claim. While judgment was entered in our favor and the case was dismissed, we expect Silvaco to appeal this victory as it has with the other co-defendants. We believe we have meritorious defenses to these allegations and will vigorously defend ourselves in these matters.

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

NOTE 10. DEBT AND EQUITY TRANSACTIONS

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

The following table summarizes the outstanding principal amount of the 1.00% Notes:

	As of			
	March 29, 2009		December 28, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
1.00% Notes	$ 27,362	$34,299	$ 27,023	$27,999

The fair value of the convertible debt was determined based on quoted market prices.

1.00% Notes:

The principal amount of the 1.00% Notes has interest payable semiannually in arrears in cash on March 15 and September 15 of each year and beginning on September 15, 2007. The 1.00% Notes will mature on September 15, 2009 unless earlier repurchased or converted. The 1.00% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than $1,000, then the excess conversion value will be convertible into cash, common stock or a combination of cash and common stock, at our election. The initial effective conversion price of the 1.00% Notes was $23.90 per share, which represented a premium of 26.5% to the closing price of our common stock on the date of issuance. As a result of the Spin-Off the post-spin conversion price was adjusted to be $5.64 per share. Holders who convert their 1.00% Notes in connection with certain types of corporate transactions constituting a fundamental change may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a fundamental change, holders may require us to purchase all or a portion of their 1.00% Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date.

The 1.00% Notes are unsubordinated and unsecured senior obligations of Cypress, and rank equal in right of payment with all of our other existing and future unsubordinated and unsecured obligations, rank junior in right of payment to any of our secured obligations to the extent of the value of the collateral securing such obligations, and are subordinated in right of payment to all existing and future obligations of our subsidiaries.

We did not enter into any share lending agreements relating to the 1.00% Notes with any third parties.

Holders may freely convert the 1.00% Notes on or after June 15, 2009 until the close of business on the business day immediately preceding the maturity date. Prior to June 15, 2009, holders may convert their 1.00% Notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, our common stock closes at a price in excess of 130% of the conversion price in effect on the last day of such calendar quarter.

Convertible Note Hedge and Warrants:

In connection with the issuance of the 1.00% Notes, we entered into a convertible note hedge transaction with respect to our common stock with the option counterparties (Credit Suisse International and Deutsche Bank AG) covering the same amount of common stock that is issuable upon conversion of the 1.00% Notes in order to reduce the potential dilution upon conversion of the 1.00% Notes in the event that the market value per share of our common stock at the time of exercise is greater than the conversion price of the 1.00% Notes. In addition, we entered into a warrant transaction in which we sold to the option counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes. The portion of the convertible note hedge and the warrants associated with the outstanding principal amount of the 1.00% Notes remained outstanding as of March 29, 2009.

Impact of adoption of FSP APB 14-1:

Effective January 1, 2009, we adopted the provisions of FSP APB 14-1, which applies to certain convertible debt instruments that have a “net settlement feature”, which means instruments that by their terms may be settled either wholly or partially in cash upon conversion. Under FSP APB 14-1, the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion must be accounted for separately in a manner reflective of our nonconvertible debt borrowing rate. Since our 1.00% Notes and our 1.25% convertible subordinated notes (“1.25% Notes” were issued in 2003 which we redeemed in February 2007), have or had an equity component that can or could be settled in cash or equity, both debt instruments qualify for treatment under this new accounting standard.

Our effective borrowing rate for nonconvertible debt at the time of issuance of the 1.00% Notes was estimated to be 6.15% and for our 1.25% Notes it was estimated to be 6.20%. For the 1.00% Notes this resulted in $70.6 million of the $600 million aggregate principal amount of debentures issued being attributable to equity. For the 1.25% Notes this resulted in $126.0 million of the $600 million aggregate principal amount of debentures issued being attributable to equity.

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

Our adoption resulted in $0.4 million and $6.5 million higher interest expense in for the first three months of fiscal 2009 and 2008, respectively. As of December 28, 2008, there was $1.0 million of the initial $70.6 million debt discount (1.00% Notes) which remained unamortized, and is expected to be amortized through September 2009. As of March 29, 2009, the aggregate carrying value of the remaining debt, including the unamortized discount, was $27.4 million. The tax effect of our adoption was immaterial to our financial statements. The following table summarizes the effects of FSP APB 14-1’s on our Condensed Consolidated Statement of Operations for the three months ended March 30, 2008:

	Three Months Ended March 30, 2008 (In thousands)		
	As Originally Reported	As Adjusted	Effect of Change in Accounting Principle
Interest expense	$ (1,505)	$ (9,562)	$ (8,057)
Other income (expense), net	(3,861)	(2,303)	1,558
Loss from continuing operations	(23,550)	(30,049)	(6,499)
Income from discontinued operations	7,241	6,965	(276)
Net loss	$ (16,309)	$(23,084)	$ (6,775)
Net loss per share - basic and diluted:			
Continuing operations	$ (0.15)	$ (0.19)	$ (0.04)
Discontinued operations	0.04	0.04	—
Net loss per share - basic and diluted	$ (0.11)	(0.15)	$ (0.04)

Line of Credit

In March 2009, we extended our line of credit with Silicon Valley Bank to March 2010 with a total available amount of $55.0 million. Loans made under the line of credit bear interest based upon the Wall Street Journal Prime Rate (3.25% as of March 29, 2009) or LIBOR plus 2.5% (3.02% as of March 29, 2009). The line of credit agreement includes a variety of covenants including restrictions on the incurrence of indebtedness, incurrence of loans, the payment of dividends or distribution on its capital stock, and transfers of assets and financial covenants with respect to an adjusted quick ratio and tangible net worth. As of March 29, 2009, we were in compliance with all of the financial covenants. Our obligations under the line of credit are guaranteed and collateralized by the common stock of certain of our business entities. We intend to use the line of credit on an as-needed basis to fund working capital and capital expenditures. To date, there have been no borrowings under the line of credit.

In conjunction with certain guarantees, we issued irrevocable standby letters of credit in the aggregate amount of $47.0 million to secure payments under an equipment lease. As of March 29, 2009, the letters of credit have been reduced to $26.5 million. See “Lease Guarantees” under Note 9 for further discussion.

Stock Repurchase Program

During the first quarter of fiscal 2008, our Board of Directors approved an additional $300.0 million under the stock repurchase program, bringing the total amount that may be used for stock purchases to $600.0 million. In January and February 2009, we used $6.5 million to repurchase approximately 1.4 million shares at an average share price of $4.59. As of March 29, 2009, the remaining balance available for future stock repurchases was $217.9 million under the stock repurchase program.

NOTE 11. ACCUMULATED OTHER COMPREHENSIVE INCOME AND COMPREHENSIVE LOSS

The components of accumulated other comprehensive income were as follows:

	As of	
	March 29, 2009	December 28, 2008
	(In thousands)	
Accumulated net unrealized gains on available-for-sale investments	$ 2,436	$ 2,427
Accumulated net unrealized gain on derivatives	54	106
Total accumulated other comprehensive income	$ 2,490	$ 2,533

The components of comprehensive loss, net of tax, were as follows:

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Net loss	$(88,335)	$(23,084)
Net unrealized gains on available-for-sale investments	2,436	4,562
Net unrealized gains on derivatives	54	264
Total comprehensive loss	$(85,845)	$(18,258)

NOTE 12. FOREIGN CURRENCY DERIVATIVES

We operate and sell products in various global markets and purchase capital equipment using foreign currencies. As a result, we are exposed to risks associated with changes in foreign currency exchange rates. We may use various hedge instruments from time to time to manage the exposures associated with purchases of foreign sourced equipment, net asset or liability positions of its subsidiaries and forecasted revenues and expenses. We do not enter into foreign currency derivative financial instruments for speculative or trading purposes. The counterparties to these hedging transactions are creditworthy multinational banks and the risk of counterparty nonperformance associated with these contracts is not considered to be material as of March 29, 2009.

As of March 29, 2009 and December 28, 2008, our hedge instruments consisted primarily of foreign currency forward contracts. We estimate the fair value of our forward contracts based on spot and forward rates from published sources.

We record hedges of certain foreign currency denominated monetary assets and liabilities at fair value at the end of each reporting period with the related gains or losses recorded in "Other income (expense), net" in the Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of March 29, 2009 and December 28, 2008, we had outstanding forward contracts with an aggregate notional value of $1.9 million and $1.4 million, respectively, to hedge the risks associated with foreign currency denominated assets and liabilities.

NOTE 13. INCOME TAXES

Our income tax expense was $2.6 million on loss before tax of $85.7 million for the three months ended March 29, 2009 and income tax expense was $2.3 million on loss before tax of $27.8 million for the three months ended March 30, 2008. The tax provision for the first quarter of fiscal 2009 was primarily attributable to non-U.S. taxes on income earned in foreign jurisdictions. The tax provision for the first quarter of fiscal 2008 was non-U.S. taxes on income earned in foreign jurisdictions, partially offset by the amortization of a deferred tax liability associated with purchased intangible assets.

Unrecognized Tax Benefits

As of March 29, 2009 and December 28, 2008, the amounts of unrecognized tax benefits recorded in the Condensed Consolidated Balance Sheet that, if recognized, would affect our effective tax rate totaled approximately $20.8 million and $20.4 million, respectively.

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

- completion of examinations by foreign taxing authorities; and
- expiration of statute of limitations on the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which we do business.

Classification of Interest and Penalties

Our policy is to classify interest expense and penalty, if any, as components of income tax provision in the Condensed Consolidated Statements of Operations. As of March 29, 2009 and December 28, 2008, accrued interest and penalties totaled $4.8 million and $4.4 million, respectively.

Spin-Off of SunPower

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

SunPower ceased to be a member of our (1) consolidated group for federal income tax purposes and most state income tax purposes (in those states which require or allow the filing of a consolidated state income tax return based upon U.S. federal consolidation rules), as of June 6, 2006, and (2) remaining state combined group for state income tax purposes, as of September 29, 2008 (the date of the Spin-Off). To the extent that SunPower becomes entitled to utilize on its separate tax returns portions of those credit or loss carryforwards existing as of such dates, SunPower will pay us the tax effect, measured at 35% for federal income tax purposes, of the amount of such tax loss carryforwards so utilized, and the amount of any credit carryforwards so utilized. SunPower will pay these amounts us in cash or in SunPower's shares, at SunPower's option. As of March 29, 2009, SunPower has $44.0 million of federal net operating loss carryforwards and $5.0 million of federal and state tax credits subject to payment to us under the tax sharing agreement amounting to approximately $20.4 million. Of this total amount, it is reasonably anticipated that we will receive from SunPower $16.6 million within the next 12 months. Accordingly, we have recorded a receivable from SunPower in the amount of $16.6 million which is included in other current assets with a corresponding increase to additional paid in capital.

In connection with the Spin-Off (see Note 2), Cypress and SunPower entered into an amendment to the existing tax sharing agreement between the parties to address certain transactions that may affect the tax treatment of the Spin-Off and certain other matters. Under the amended tax sharing agreement, SunPower is required to provide notice to us of certain transactions that could give rise to SunPower's indemnification obligation relating to taxes resulting from the application of Section 355(e) of the Internal Revenue Code or similar provision of other applicable law to the Spin-Off as a result of one or more acquisitions (within the meaning of Section 355(e)) of SunPower's stock after the Spin-Off.

In addition, under the amended tax sharing agreement and subject to certain exceptions, SunPower agreed that, for a period of 25 months following the Spin-Off, it will not: (a) effect a transaction that would result in a recapitalization as defined by the parties ("Recapitalization") or (b) enter into or facilitate any other transaction resulting in an acquisition (within the meaning of Section 355(e) of the Internal Revenue Code) of SunPower's stock without first obtaining our written consent. SunPower further agreed that it will not: (a) effect a Recapitalization during the 36 month period following the Spin-Off without first obtaining a tax opinion to the effect that such Recapitalization (either alone or when taken together with any other transaction or transactions) will not cause the Spin-Off to become taxable under Section 355(e), or (b) seek any private ruling, including any supplemental private ruling, from the IRS with regard to the Spin-Off, or any transaction having any bearing on the tax treatment of the Spin-Off, without our prior written consent.

NOTE 14. NET INCOME (LOSS) PER SHARE

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

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands, except per-share amounts)	
Net Loss Basic and diluted:		
Loss from continuing operations	$ (88,335)	$ (30,049)
Income from discontinued operations, net of taxes	—	6,965
Net loss	$ (88,335)	$ (23,084)
Weighted-average common shares	134,757	154,960
Net income (loss) per share basic and diluted:		
Continuing operations	$ (0.66)	$ (0.19)
Discontinued operations	—	0.04
Basic and diluted net loss per share	$ (0.66)	$ (0.15)

The following anti-dilutive securities were excluded from the diluted calculation:

	Three Months Ended	
	March 29, 2009	March 30, 2008
	(In thousands)	
Stock options and unvested restricted stock units	95,893	93,537
Convertible debt	—	—
Warrants	—	25,105

<u>Convertible Debt:</u>

The 1.00% Notes are convertible debt which requires us to settle the principal value of the debt in cash and any conversion premiums in either cash or stock, at our election. In connection with the issuance of the 1.00% Notes, we entered into a convertible note hedge transaction with respect to our common stock with the option counterparties covering the same amount of common stock that is issuable upon conversion of the 1.00% Notes in order to reduce the potential dilution in the event that the market value per share of our common stock at the time of exercise is greater than the conversion price of the 1.00% Notes. In addition, we entered into a warrant transaction in which we sold to the option counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes. We applied the treasury stock method in determining the dilutive impact of both the 1.00% Notes and the warrants. In accordance with SFAS No. 128, "Earnings per Share," the convertible note hedge is excluded from the diluted earnings per share computation as it is anti-dilutive.

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NOTE 15. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

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

Revenues:

	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008
	(In thousands)	
Consumer and Computation Division	$ 52,023	$ 62,952
Data Communications Division	20,400	28,330
Memory and Imaging Division	66,032	74,646
Other	854	2,454
Total revenues	$139,309	$168,382

Loss from Continuing Operations before Income Taxes:

	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008
	(In thousands)	
Consumer and Computation Division	$(14,230)	$ (5,746)
Data Communications Division	(1,589)	4,611
Memory and Imaging Division	(7,012)	8,478
Other	(5,957)	(5,557)
Unallocated items:		
Amortization of intangibles and other acquisition-related costs	(1,319)	(1,786)
Restructuring charges	(6,046)	(2,412)
Stock-based compensation	(48,244)	(16,189)
Impairment of property and equipment	—	(1,734)
Impact of FSP APB 14-1	(398)	(6,499)
Impairment of investments	(1,730)	(213)
Other	815	(752)
Loss before income taxes	$(85,710)	$(27,799)

Geographical Information:

The following table presents our revenues by geographical locations:

	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008
	(In thousands)	
United States	$ 36,249	$ 56,286
Europe	20,303	27,005
Asia:		
China	26,720	22,772
Hong Kong	17,508	—
Other	38,529	62,319
Total revenues	$139,309	$168,382

Customer Information

For the three months ended March 29, 2009 and March 30, 2008, no customer accounted for more than 10% of our total revenues.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Management's Discussion and Analysis of Financial Condition and Results of Operations in this Quarterly Report of Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, which are discussed in the "Forward-Looking Statements" section under Part I of this Quarterly Report on Form 10-Q.

Adjustments to Previously Announced Preliminary Quarterly Results

On April 16, 2009, we issued a press release announcing our preliminary quarterly results for the three months ended March 29, 2009. In the press release, we reported a net loss of $90.7 million in the Condensed Consolidated Statements of Operations for the three months ended March 29, 2009. Subsequent to the issuance of our press release, we recorded an adjustment to our reported results relating to the sale of restructured assets from our Texas facility. This adjustment totaled $2.4 million, which will reduce our net loss to $88.3 million for the three months ended March 29, 2009.

The following table presents a reconciliation of the preliminary net loss and net loss per share announced in our press release on April 16, 2009 to the final results reported in this Quarterly Report on Form 10-Q:

	Three Months Ended March 29, 2009 (In thousands, except per- share amounts)
Net loss announced on April 16, 2009	$ (90,704)
Adjustments:	
Gain on sale of assets	2,369
Net loss reported in Quarterly Report on Form 10-Q	$ (88,335)
Net loss per share:	
Basic and diluted—announced on April 16, 2009	$ (0.67)
Basic and diluted—reported in Quarterly Report on Form 10-Q	$ (0.66)

EXECUTIVE SUMMARY

General

Our mission is to transform Cypress Semiconductor Corporation ("Cypress") from a traditional, broad-line semiconductor company into a leading supplier of proprietary and programmable solutions in systems everywhere. We deliver high-performance, mixed-signal, programmable solutions that provide customers with integration, rapid time-to-market and system value. Our offerings include Programmable System-on-Chip ("PSoC®") products, capacitive sensing and touchscreen solutions, universal serial bus ("USB") controllers, and general-purpose programmable clocks and memories. Cypress also provides wired and wireless connectivity solutions, including, respectively, West Bridge® controllers, which enhance performance in multimedia handsets, and the CyFi low-power RF solution, offering unmatched reliability, simplicity and power-efficiency. Cypress serves numerous markets, including consumer, computation, data communications, automotive, medical, industrial and white goods.

Our organization included the following business segments as of the end of the first quarter of fiscal 2009:

Business Segments	Description
Consumer and Computation Division	a product division focusing on PSoC, USB and timing solutions
Data Communications Division	a product division focusing on data communication devices for wireless handset and professional / personal video systems
Memory and Imaging Division	a product division focusing on static random access memories, nonvolatile memories and image sensor products
Other	includes Cypress Envirosystems, and AgigaTech, Inc., both majority-owned subsidiaries of Cypress, the ONS and China business units and certain foundry-related services and corporate expenses

Spin-Off of SunPower Corporation ("SunPower")

On September 29, 2008, the first day of our fourth quarter of fiscal 2008, we completed the distribution of all of our 42.0 million shares of SunPower Class B common stock to our stockholders (the "Spin-Off"). The distribution was made pro rata to our stockholders of record as of the close of trading on September 17, 2008. As a result of the Spin-Off, each stockholder received approximately 0.274 of a share of SunPower Class B common stock for each share of Cypress's common stock held by such stockholder. Our stockholders received cash in lieu of fractional shares for amounts of less than one SunPower share. The market value of the distribution was approximately $2.6 billion based on the closing price of SunPower common stock on September 29, 2008.

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

See Note 2 of Notes to Condensed Consolidated Financial Statements for a detailed discussion of the Spin-Off. Unless otherwise indicated, this Quarterly Report on Form 10-Q includes discussion of our continuing operations.

Adjustments to Cypress's Stock Plans:

On August 1, 2008, the Board approved certain adjustments to our 1994 and 1999 Stock Plans (together, the "Plans") and outstanding employee equity awards in anticipation of the Spin-Off. These adjustments were consistent with and similar to the provisions in the Plans providing for automatic adjustment of service provider equity awards and share pools pursuant to a stock split or similar change in capitalization effected without receipt of consideration by us.

On September 30, 2008, following the Spin-Off, outstanding employee equity awards under the Plans were adjusted by a conversion ratio of 4.12022 (the "Conversion Ratio"). Specifically, the number of shares issuable pursuant to the outstanding awards was multiplied by the Conversion Ratio and rounded down to the nearest whole share. In addition, the per-share exercise price of outstanding options was divided by the Conversion Ratio and rounded up to the nearest whole cent. Also, the number of authorized but unissued shares reserved for issuance under the Plans and the ESPP and the numerical provisions under the Plans' annual grant limits and automatic option grant provisions, including automatic grants to Board members, were multiplied by the Conversion Ratio and rounded down to the nearest whole share.

Stock-Based Compensation:

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," the modification of the outstanding employee equity awards and the ESPP approved by the Board on August 1, 2008 resulted in additional non-cash stock-based compensation. The amount was measured based upon the difference between the fair value of the awards immediately before and after the modification. Of the total additional non-cash stock-based compensation, $13.4 million was recognized in the first quarter of fiscal 2009 and $69.5 million will be recognized over the remaining vesting periods on an accelerated basis.

Manufacturing Strategy

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

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

Conversion of Distributors

Prior to fiscal 2008, we had sales agreements with certain independent distributors in Asia, including Japan, that did not provide these distributors with price protection or rights of return. As such, revenues were recognized upon shipment. During the first quarter of fiscal 2008, we negotiated new terms with these distributors. Under the new terms, these distributors are now provided with allowances such as price protection and stock rotation rights. Given the uncertainties associated with the rights provided to these distributors, revenues and costs relating to sales to these distributors are deferred until the products are sold by the distributors to the end customers.

The objective of this conversion is to enable us in the long term to achieve higher gross margin dollars in Asia as we will now be able to manage the end customer sales. In addition, we will be able to provide design registration for our rapidly growing proprietary businesses and align our distribution and revenue recognition policies consistently across the world.

As a result of changing the terms of these distributor agreements, we were required to change from recognizing revenues at the time of shipment to recognizing revenues upon sales to the ultimate end customers. The impact of this change in fiscal 2008 resulted in: (1) the deferral of approximately $20.8 million of revenues that would have been recognized under the previous sales terms, and (2) an increase in our net loss of approximately $10.8 million for the first quarter of fiscal 2008.

Results of Operations

Revenues

The following table summarizes our consolidated revenues by segments:

	Three Months Ended	
(In thousands)	March 29, 2009	March 30, 2008
Consumer and Computation Division	$ 52,023	$ 62,952
Data Communications Division	20,400	28,330
Memory and Imaging Division	66,032	74,646
Other	854	2,454
Total revenues	$139,309	$168,382

As discussed in the “Executive Summary” section above, consolidated revenues for the first quarter of fiscal 2008 were negatively impacted by the revenue deferral of approximately $20.8 million due to the conversion of certain distributors in Asia.

	(In thousands)
Consumer and Computation Division	$ 12,125
Data Communications Division	1,024
Memory and Imaging Division	7,570
Other	84
Total revenue deferral	$ 20,803

Consumer and Computation Division:

Revenues from the Consumer and Computation Division decreased approximately $10.9 million in the first quarter of fiscal 2009, or approximately 17.4%, compared to the same prior-year period. The decrease was primarily attributable to a decrease of approximately $6.4 million in sales of our USB and general-purpose timing solutions mainly due to the economic slowdown impacting demand in PC applications and consumer devices and increased competition in the consumer market. The decrease was also attributable to a decrease of $4.2 million in sales of our TSBU solutions resulting from reduced demand from certain large consumer and personal computer customers. Despite the current challenging economic environment, our PSOC product families continue to gain new design wins, expand their customer base and increase market penetration in a variety of end-market applications.

Data Communications Division:

Revenues from the Data Communications Division decreased $7.9 million in the first quarter of fiscal 2009, or approximately 28.0%, compared to the same prior-year period. The decrease was primarily attributable to a decrease of $7.6 million in sales of our physical layer devices primarily due to the decline in military shipments.

Memory and Imaging Division:

Revenues from the Memory and Imaging Division decreased $8.6 million in the first quarter of fiscal 2009, or approximately 11.5%, compared to the same prior-year period. The decrease was primarily attributable the economic slowdown impacting us by reducing sales by $8.5 million of our SRAM products in networking, consumer and communications applications.

Other:

Revenues from Other decreased $1.6 million in the first quarter of fiscal 2009, or approximately 65.2%, compared to the first quarter of fiscal 2008. The decrease in revenues was primary attributable to a decrease of $1.8 million in sales related to Silicon Light Machines which we divested in fiscal 2008.

Cost of Revenues/Gross Margins

	Three Months Ended	
(In thousands, except percentages)	March 29, 2009	March 30, 2008
Cost of revenues	$105,294	$88,233
Gross margin	24.4%	47.6%

Gross margin decreased from 47.6% in the first quarter of fiscal 2008 to 24.4% in the first quarter of fiscal 2009. The gross margin was impacted by reduced factory utilization as the economic downturn lowered end-customer demand. In addition, stock-based compensation expense allocated to cost of revenue increased $10.7 million mainly due to the modification of the outstanding employee equity awards approved by the Board in connection with the Spin-Off.

Research and Development ("R&D") Expenses

	Three Months Ended	
(In thousands, except percentages)	March 29, 2009	March 30, 2008
R&D expenses	$50,146	$44,150
As a percentage of revenues	36.0%	26.2%

R&D expenditures increased $6.0 million in the first quarter of fiscal 2009 compared to same prior-year period. The increase was primarily attributable to an increase of $7.7 million in stock-based compensation expense mainly due to the modification of the outstanding employee equity awards approved by the Board in connection with the Spin-Off. This increase was partially offset by the reduction in employee related labor and other costs associated with the implementation of our Fiscal 2008/9 Restructuring Plan.

As a percentage of total revenues, the increase in R&D expenses in the first three months of fiscal 2009 compared to the same prior-year period was primarily a result of these expenses increasing at a higher rate than the rate of our revenue growth.

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

	Three Months Ended	
(In thousands, except percentages)	March 29, 2009	March 30, 2008
SG&A expenses	$60,715	$57,168
As a percentage of revenues	43.6%	34.0%

SG&A expenses increased $3.5 million in the first quarter of fiscal 2009 compared to the same prior-year period. The increase was primarily attributable to an increase of $13.7 million in stock-based compensation expense mainly due to the modification of the outstanding employee equity awards approved by the Board in connection with the Spin-Off. This increase was offset by the reduction in employee related labor and other costs associated with the implementation of our Fiscal 2008/2009 Restructuring Plan as well as further cost reduction efforts.

As a percentage of total revenues, the increase in SG&A expenses in the first quarter of fiscal 2009 compared to the same prior-year period was primarily a result of revenue decreasing at a much faster rate than the rate of decrease in our SG&A expenses.

Amortization of Acquisition-Related Intangible Assets

For the three months ended March 29, 2009, amortization decreased approximately $0.3 million as compared to the corresponding fiscal 2008 period. The decrease in amortization was primarily due to certain intangible assets that had been fully amortized during fiscal 2008 offset by the increase in intangibles acquired as part of the Simtek acquisition.

Restructuring

We recorded restructuring charges of $6.0 million and $2.4 million during the three months ended March 29, 2009 and March 30, 2008, respectively. The amount recorded during the three months ended March 29, 2009 included a provision of $7.7 million and for the Fiscal 2008/9 Restructuring Plan offset by a credit of $1.7 million for the Fiscal 2007 Restructuring Plan. The $1.7 million credit recorded in the first quarter of fiscal 2009 relates to the sale of equipment located at our Texas facility. During the three months ended March 29, 2009 the savings from our actions taken to date was approximately $11.3 million. Upon completion of all of our actions we anticipate our savings in fiscal year 2010 to be approximately $15.8 million per quarter. We estimate the savings will proportionately impact sales general and administrative expense by 24%, cost of goods sold by 54% and research and development expense by 22%.

Fiscal 2008/9 Restructuring Plan:

The charges in 2009 relate to a restructuring plan which was initiated during the third quarter of fiscal 2008 and was part of a company-wide cost saving initiative aimed to reduce operating costs in response to the economic downturn ("Fiscal 2008/9 Restructuring Plan"). In accordance with SFAS No. 112, "Employers' Accounting for Post Employment Benefits" (SFAS No. 112) and SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146), we recorded a total of $19.6 million under the Fiscal 2008/9 Restructuring Plan, of which $19.5 million was related to personnel costs and $0.1 million was related to other exit costs. The determination of when we accrue for severance costs, and which standard applies, depends on whether the termination benefits are provided under a one-time benefit arrangement as defined by SFAS No. 146 or under an on-going benefit arrangement as described by SFAS No. 112. Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Balance as of December 28, 2008	$ 7,374
Provision	7,741
Non cash	(73)
Cash payments	(3,214)
Balance as of March 29, 2009	$11,828

Upon completion of our restructuring activities we expect to eliminate approximately 758 positions of which approximately 430 positions are manufacturing related positions and 328 are Corporate and other related positions.

As of March 29, 2009 about 413 employees remained with us and the majority of these remaining employee terminations are to be completed by the second quarter of fiscal 2009.

Fiscal 2007 Restructuring Plan:

During the fourth quarter of fiscal 2007, we implemented a restructuring plan to exit our manufacturing facility located in Round Rock, Texas ("Fiscal 2007 Restructuring Plan"). Under the Fiscal 2007 Restructuring Plan, we transitioned production from the Texas facility to our more cost-effective facility in Bloomington, Minnesota as well as outside third-party foundries. The Fiscal 2007 Restructuring Plan includes the termination of employees and the disposal of assets, primarily consisting of land, building and manufacturing equipment, located in the Texas facility. The Fiscal 2007 Restructuring Plan does not involve the discontinuation of any material product lines or other functions.

To date, we recorded total restructuring charges of $8.8 million related to the Fiscal 2007 Restructuring Plan, of which a credit of $1.7 million was recorded in the first quarter of fiscal 2009, $9.9 million was recorded in fiscal 2008 and $0.6 million was recorded in fiscal 2007. The $1.7 million credit recorded in fiscal 2009 relates to the sale of equipment located at our Texas facility. Of the total restructuring charges, $7.9 million was related to personnel costs and $0.9 million was related to property, plant and equipment and other facility costs.

Personnel Costs:

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Balance as of December 28, 2008	$ 2,721
Additional provision	518
Cash payments	(2,476)
Balance as of March 29, 2009	$ 763

We completed the termination of the remaining employees in the first quarter of fiscal 2009. These employees were primarily in manufacturing functions.

Property, Plant and Equipment:

The Texas facility ceased operations in the fourth quarter of fiscal 2008. As management has committed to a plan to dispose of the assets associated with the facility by sale, we have classified the assets as held for sale and valued the assets at the lower of their carrying amount or fair value. Fair value was determined by prices to be received from buyers of the assets or by market prices estimated by third parties that specialize in sales of such assets. Based on this analysis in fiscal 2008, we recorded a write-down of $1.9 million related to the assets and $1.2 million of related disposal and other facility costs.

The following table summarizes the net book value of the remaining restructured assets that were classified as held for sale and included in “Other current assets” in the Consolidated Balance Sheet as of March 29, 2009:

(In thousands)	
Land	$ 994
Equipment	375
Buildings and leasehold improvements	6,430
Total property, plant and equipment, net	$7,799

We expect to complete the disposal of the restructured assets by the fourth quarter of fiscal 2009, however, our ability to complete the sale of any restructured assets may be impacted by the current economic and credit conditions.

Interest Income

Interest income decreased $8.7 million in the first quarter of fiscal 2009 compared to the first quarter of fiscal 2008. The decrease was primarily driven by lower average interest rates as we shifted our portfolio to more liquid and safe investments such as U.S. treasuries, coupled with lower average cash and investment balances.

Interest Expense

Interest expense was $0.4 million in the first quarter of fiscal 2009 compared to $9.6 million in the first quarter of fiscal 2008. The decrease was primarily attributable to the adoption of FSP APB 14-1 which resulted in the recording of $8.1 million of interest expense in the first quarter of fiscal 2008 compared to $0.4 million in the first quarter of 2009. Interest expense also decreased in the first quarter of 2008 due to the higher balance of our convertible debt in fiscal 2008.

Other Income (Expense), Net

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

	Three Months Ended	
(In thousands)	March 29, 2009	March 30, 2008
Impairment of investments	$ (1,730)	$ (213)
Foreign currency exchange gain (loss), net	(110)	309
Changes in fair value of investment under the employee deferred compensation plan	(674)	(2,536)
Other	820	137
Total other income (expense), net	$ (1,694)	$ (2,303)

Employee Deferred Compensation Plan:

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

We account for the deferred compensation plan in accordance with Emerging Issues Task Force ("EITF") Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." In accordance with EITF Issue No. 97-14, the assets are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income.

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

	Three Months Ended	
(In thousands)	March 29, 2009	March 30, 2008
Changes in fair value of assets recorded in:		
Other expense, net	$ (674)	$ (2,536)
Changes in fair value of liabilities recorded in:		
Cost of revenues	62	943
R&D expenses	95	1,085
SG&A expenses	492	829
Total income (expense)	$ (25)	$ 321

Income Taxes

Our income tax expense was $2.6 million on loss before tax of $85.7 million for the three months ended March 29, 2009 and income tax expense was $2.3 million on loss before tax of $27.8 million for the three months ended March 30, 2008. The tax provision for the first quarter of fiscal 2009 was primarily attributable to non-U.S. taxes on income earned in foreign jurisdictions. The tax provision for the first quarter of fiscal 2008 was non-U.S. taxes on income earned in foreign jurisdictions, partially offset by the amortization of a deferred tax liability associated with purchased intangible assets.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes information regarding our cash and investments, working capital and debt:

	As of	
(In thousands)	March 29, 2009	December 28, 2008
Cash, cash equivalents and short-term investments	$ 223,742	$ 237,792
Working capital	$ 224,319	$ 248,397
Convertible debt—short-term	$ 27,362	$ 27,023

Key Components of Cash Flows

	Three Months Ended	
(In thousands)	March 29, 2009	March 30, 2008
Net cash provided by (used in) operating activities of continuing operations	$(15,804)	$ 10,174
Net cash provided by investing activities of continuing operations	$ 15,221	$ 61,673
Net cash provided by (used in) financing activities of continuing operations	$ 6,225	$(275,293)

During the three months ended March 29, 2009, net cash used in operating activities was $15.8 million compared to net cash provided by operating activities of $10.2 million for the three months ended March 30, 2008. Operating cash flows for the three months ended March 29, 2009 were primarily driven by a net loss adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, non-cash interest expense, restructuring charges and a net decrease in operating assets and liabilities. The decrease in accounts receivable was primarily driven by lower revenues. The decrease in inventories was primarily attributable to decreased production as the economic slowdown continued into the first quarter. The decrease in accounts payable and other liabilities was primarily driven by a decrease in sales which impacted our overall business activity.

During the three months ended March 29, 2009, net cash provided by investing activities decreased $46.5 million compared to the three months ended March 30, 2008. For the three months ended March 29, 2009, our investing activities primarily included: cash proceeds of $17.8 million from sales or maturities of our investments, net of purchases. These cash inflows were partially offset by $6.5 million of property and equipment expenditures. For the three months ended March 30, 2008, our investing activities primarily included $9.8 million of property and equipment expenditures. These cash outflows were offset by cash proceeds of $71.0 million from sales or maturities of our investments, net of purchases.

During the three months ended March 29, 2009, net cash provided by financing activities was $6.2 million compared to net cash used by financing activities of $275.3 for the three months ended March 30, 2008. For the three months ended March 29, 2009, our financing activities primarily included $6.5 million in cash used to repurchase our common shares, offset by proceeds of $18.0 million from the issuance of common shares under our employee stock plans. For the three months ended March 30, 2008, we used $277.1 million in cash to repurchase our common shares, partially offset by cash proceeds of $6.1 million from the issuance of common shares under our employee stock plans.

Liquidity and Contractual Obligations

Convertible Debt:

As of March 29, 2009, the outstanding principal amount of the 1.00% Notes was $27.4 million. Holders of the 1.00% Notes have the right to convert their 1.00% Notes in accordance with and subject to the terms of the Indenture. The 1.00% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount of the 1.00% Notes or the conversion value. If the conversion value of the 1.00% Notes is greater than $1,000, then the excess conversion value will be convertible into cash or shares of Cypress's common stock, or a combination of cash and shares, at our election. As of March 29, 2009, the conversion price of the 1.00% Notes was $5.64 per share.

As of March 29, 2009 the holders of the 1.00% Notes cannot currently convert, but they will have the right to convert after June 15, 2009. Holders who convert after June 15, 2009 will not receive a make-whole adjustment unless there is another fundamental change. The amount that will be paid on conversion will be calculated based on the 20 trading days beginning on August 13, 2009, the 22nd trading day prior to the maturity date of September 15, 2009.

Auction Rate Securities:

As of March 29, 2009, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. Currently, these failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. We have classified our auction rate securities totaling $33.7 million as long-term investments as of March 29, 2009.

During fiscal 2009, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows.

Based on the discounted cash flows, we estimated that the auction rate securities would be valued at approximately 87% of their stated par value as of March 29, 2009 and the auction rate securities are stated at that value.

Stock Repurchase Program:

The Board has approved $600.0 million under the stock repurchase program. Stock repurchases under the program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, cash requirements, corporate and regulatory requirements and other market conditions. The program may be limited or terminated at any time without prior notice.

During fiscal 2008, Cypress used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. Prior to the spin-off of SunPower, Cypress used $277.1 million in cash to repurchase approximately 12.6 million shares at an average share price of $21.95 and post spin off Cypress used $98.5 million in cash to repurchase approximately 24.5 million shares at an average share price of $4.03. In January and February 2009, Cypress used $6.5 million to repurchase approximately 1.4 million shares at an average share price of $4.59.

As of March 29, 2009, the remaining balance available for future stock repurchases was $217.9 million under the stock repurchase program.

Due to certain spin-related tax limitations, management does not anticipate repurchasing more than 4.0 million shares for the remainder of fiscal 2009.

Purchase Obligations:

We have outstanding purchase obligations, which primarily include non-cancelable purchase orders for materials, services, manufacturing equipment, building improvements and supplies in the ordinary course of business. Purchase obligations are defined as enforceable agreements that are legally binding on us and that specify all significant terms, including quantity, price and timing. As of March 29, 2009, non-cancelable purchase obligations totaled approximately $86.2 million.

Capital Resources and Financial Condition

Our long-term strategy is to maintain a minimum amount of cash and cash equivalents for operational purposes and to invest the remaining amount of our cash in interest-bearing and highly liquid cash equivalents and debt securities. As of March 29, 2009, in addition to $210.4 million in cash and cash equivalents, we had $13.4 million invested in short-term investments for a total cash and short-term investment position of $223.8 million that is available for use in current operations. In addition, we had $35.1 million of long-term investments primarily consisting of illiquid auction rate securities.

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

Off-Balance Sheet Arrangement

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

Grace has leased certain semiconductor manufacturing equipment from a financing company. In conjunction with the lease agreement, we have entered into a series of guarantees with the financing company for the benefit of Grace. Under the guarantees, we have agreed to unconditional guarantees to the financing company of the rental payments payable by Grace for the leased equipment under the master lease agreement. If Grace fails to pay any of the quarterly rental payments, we will be obligated to pay such outstanding amounts within 10 days of a written demand from the financing company. If we fail to pay such amount, interest will accrue at a rate of 9% per annum on any unpaid amounts. To date, we have not been required to make any payments under these guarantees. As of March 2009 we updated our assessment of the likelihood that we would have to settle the outstanding lease payments and we determined that is was not probable. As a result we have not recorded any liability relating to outstanding lease payments.

Pursuant to the guarantees, we issued irrevocable letters of credit to secure the rental payments under the guarantees in the event a demand is made by the financing company on us. The amount available under the letters of credit will decline according to schedules mutually agreed upon by us and the financing company. If we default, the financing company will be entitled to draw on the letters of credit.

In connection with the guarantees, we were granted options to purchase ordinary shares of Grace. As of March 29, 2009, we determined that the fair value of the guarantees and the options was not material to our consolidated financial statements.

The following table summarizes the terms and status of the guarantees:

			Outstanding Rental Payments		Outstanding Irrevocable Letters of Credit		
Fiscal Year	Number of Guarantees	Lease Term of Equipment Under Each Guarantee	At Inception	As of March 29, 2009	At Inception	As of March 29, 2009	Grace Options Granted to Cypress
					(In thousands)		
2006	One	36 months	$ 8,255	$ 2,064	$ 6,392	$ 2,263	2,272
2007	Five	36 months	42,278	18,304	32,726	17,896	17,097
2008	One	36 months	10,372	6,915	7,918	6,309	6,009
			$60,905	$27,283	$ 47,036	$ 26,468	25,378

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risks

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

Auction Rate Securities

As of March 29, 2009, we have classified all of our auction rate securities as Level 3 financial instruments. Auction rate securities are investments with contractual maturities generally between 20 and 30 years. The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the U.S. Federal Department of Education.

As of March 29, 2009, all auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies except for 5% of the student loan auction rate securities which were downgraded from AAA to Baa3 in the first fiscal quarter of 2009. The downgrade event was due to the higher rates the issuer is paying out versus the lending rates, which is preventing the issuer from building excess spread as required under the prospectus. If the financial market continues to deteriorate, future downgrades could potentially impact the rating of our auction rate securities.

As of March 29, 2009, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. Currently, these failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, we have classified our auction rate securities totaling $33.7 million as long-term investments as of March 29, 2009.

We performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used for the first quarter of fiscal 2009 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 3.6%—5.8%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 87% of their stated par value as of March 29, 2009. The following table summarizes certain information related to our auction rate securities as of March 29, 2009:

	Fair Value	Fair Value Given a 100 Basis Point Increase in Interest Rates	Fair Value Given a 100 Basis Point Decrease in Interest Rates
		(In thousands)	
Auction rate securities	$33,698	$ 37,067	$ 30,328

Convertible Debt

The fair value of our convertible debt is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the convertible debt will generally increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of the convertible debt will generally increase as our common stock prices increase and decrease as the stock prices fall. The interest and market value changes affect the fair value of our convertible debt but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations. The following table summarizes certain information related to our convertible debt as of March 29, 2009:

Convertible Debt	Fair Value	Fair Value Given a 10% Increase in Market Prices	Fair Value Given a 10% Decrease in Market Prices
		(In thousands)	
1.00% convertible senior notes	$34,299	$ 37,729	$ 30,869

Investments in Publicly Traded and Privately Held Companies

We have equity investments in certain publicly traded companies. The marketable equity securities are classified as available-for-sale investments and are recorded at fair value with unrealized gain (loss) reported as a component in "Accumulated other comprehensive income" in the Consolidated Balance Sheets. The fair value of the common stock is subject to market price volatility. The following table summarizes certain information related to these investments as of March 29, 2009:

Investments	Fair Value	Fair Value Given a 10% Increase in Stock Prices	Fair Value Given a 10% Decrease in Stock Prices
		(In thousands)	
Marketable equity securities	$ 4,189	$ 4,608	$ 3,770

We also have equity investments in several privately held companies, many of which are start-ups or in development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. As our equity investments generally do not permit us to exert significant influence or control, these amounts generally represent our cost of the investments, less any adjustments we make when we determine that an investment's net realizable value is less than its carrying cost. As of March 29, 2009, the carrying value of our investments in privately held companies was $1.2 million.

Foreign Currency Exchange Risk

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q and after considering the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting that occurred during the first quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this item is included in Note 9 of Notes to Condensed Consolidated Financial Statements under Item 1, Part 1 of this Quarterly Report on Form 10-Q and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

With the exception of the new risk factor below, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended December 28, 2008.

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

Currently a majority of our revenue is generated from customers located outside the United States, and a substantial portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings for certain non-United States subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. President Obama's administration has recently announced initiatives that would substantially reduce our ability to defer U.S. taxes including: repeal deferral of U.S. taxation of foreign earnings, eliminate utilization or substantially reduce our ability to claim foreign tax credits, and eliminate various tax deductions until foreign earnings are repatriated to the United States. If any of these proposals are constituted into legislation, they could have a negative impact on our financial position and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock Repurchase Program:

The Board of Directors has approved $600.0 million under the stock repurchase program. Stock repurchases under the program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The program may be limited or terminated at any time without prior notice.

During fiscal 2008, Cypress used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. Prior to the spin-off of SunPower, Cypress used $277.1 million in cash to repurchase approximately 12.6 million shares at an average share price of $21.95 and post spin off Cypress used $98.5 million in cash to repurchase approximately 24.5 million shares at an average share price of $4.03. In January and February 2009, Cypress used $6.5 million to repurchase approximately 1.4 million shares at an average share price of $4.59.

As of March 29, 2009, the remaining balance available for future stock repurchases was $217.9 million under the stock repurchase program.

The following table sets forth information with respect to repurchases of our common stock made during the first quarter of fiscal 2009:

Periods	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Total Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
	(In thousands, except per-share amounts)			
December 29, 2008—January 25, 2009	—	$ —	—	$ —
January 26, 2009 — February 22, 2009	1,416	$ 4.59	1,416	$ 217,900
February 23, 2009— March 29, 2009	—	$ —	—	$ —
Total	1,416	$ 4.59	1,416	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
10.44	Amendment No. 7 to Loan and Security Agreement with Silicon Valley Bank, dated March 5, 2009
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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 8, 2009

By: /s/ BRAD W. BUSS
Brad W. Buss
Executive Vice President, Finance and Administration and Chief Financial Officer

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Exhibit 10.44

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

BY AND BETWEEN

CYPRESS SEMICONDUCTOR CORPORATION

AND

SILICON VALLEY BANK

DATED AS OF MARCH 2, 2009

THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT, dated as of March 2, 2009 (this "***Agreement***" or this ***"Loan Agreement"***), is by and between **SILICON VALLEY BANK** ("***Bank***"), whose address is 3003 Tasman Drive, Santa Clara, California, 95054, and **CYPRESS SEMICONDUCTOR CORPORATION** ("***Borrower***"), whose address is 198 Champion Court, Building 6, 3rd Floor, San Jose, California, 95134, amends and restates in its entirety that Loan and Security Agreement between the parties hereto dated as of September 25, 2003, and provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. The parties hereto agree as follows:

1. DEFINITIONS; ACCOUNTING AND OTHER TERMS

Capitalized terms used herein shall have the meanings given to such terms in Section 13 of this Agreement and in ***Appendix A*** hereto. Accounting terms not defined in this Agreement will be construed following GAAP. Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules thereto. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any Loan Document.

2. LOAN AND TERMS OF PAYMENT

2.1 Promise to Pay.

Borrower promises to pay Bank the unpaid principal amount of all Advances and interest on the unpaid principal amount of the Advances.

2.1.1 Advances.

(a) Bank will make Advances not exceeding the Committed Revolving Line minus (i) the outstanding principal balance of the Advances (including drawn but unreimbursed Letters of Credit that are deemed to be Advances pursuant to Section 2.1.2(c)), minus (ii) the amount of all outstanding Letters of Credit (excluding drawn but unreimbursed Letters of Credit that are deemed to be Advances pursuant to Section 2.1.2(c)) minus (iii) all amounts for services utilized for Cash Management Services that Borrower and Bank agree to in writing pursuant to Section 2.1.4. Amounts borrowed hereunder that remain available for borrowing under this Agreement may be repaid and reborrowed prior to the Maturity Date, without penalty or premium.

(b) To obtain an Advance, Borrower must notify Bank pursuant to the terms set for in Section 2 of ***Appendix A***. Borrower must promptly confirm the notification by delivering to Bank a Loan Payment/Advance Request Form (the "***Payment/Advance Form***"). Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance.

(c) The Committed Revolving Line shall terminate on the Maturity Date, and all Advances are immediately due and payable on the Maturity Date.

2.1.2 Letters of Credit.

(a) Bank will issue or have issued documentary or standby Letters of Credit for Borrower's account not exceeding the amount available under the Committed Revolving Line (each, a "***Letter of Credit***"). Each Letter of Credit will have an expiry date of no later than 180 days after the Maturity Date, but Borrower's reimbursement obligation will be secured by cash on terms acceptable to Bank at any time after the Maturity Date if such Maturity Date is not extended by Bank or if an Event of Default occurs and continues. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request.

(b) Prior to or simultaneously with the opening of each Letter of Credit, Borrower shall pay to Bank Bank's customary fees in connection with the opening of a letter of credit (the "***Letter of Credit Fees***"). The Letter of Credit Fees shall be paid upon the opening of each Letter of Credit and upon each anniversary thereof, if required. In addition, Borrower shall pay to Bank, for its own account, any and all additional issuance, negotiation, processing, transfer or other fees to the extent and as and when required by the provisions of any application for Letters of Credit. All Letter of Credit Fees shall be part of the Obligations.

(c) If any Letter of Credit is drawn upon, such amount shall constitute an Advance and shall initially accrue interest at the Prime Rate, provided that Borrower shall have the right, from time to time, to elect an Interest Rate based on the LIBOR Rate pursuant to the terms of ***Appendix A***. If such amount is not paid immediately, then the full amount thereof shall accrue interest at the rate set forth in Section 2.3.1.

2.1.3 Intentionally Omitted.

2.1.4 Cash Management Services.

Borrower may use the availability under the Committed Revolving Line for Bank's cash management services, which may include merchant services, direct deposit of payroll, business credit cards, automated clearing house transactions, controlled disbursement accounts and check cashing services identified in various cash management services agreements related to such services (the "***Cash Management Services***"). Such aggregate amounts utilized for Cash Management Services will reduce the amount otherwise available to be borrowed under the Committed Revolving Line, provided that Borrower and Bank shall enter into a written agreement with respect to any such Cash Management Services that sets forth (i) the amount of availability under the Committed Revolving Line that will be reduced with respect to such Cash Management Services or the methodology for calculating such amounts and (ii) the terms and conditions governing such Cash Management Services, including, without limitation, the treatment of any credit extended by Bank to Borrower under such Cash Management Services as Advances hereunder.

2.2 Overadvances.

If, at any time, Borrower's Obligations hereunder exceed the Committed Revolving Line, Borrower shall immediately pay Bank the excess.

2.3 Interest Rate, Payments.

2.3.1 Interest Rate. Advances accrue interest on the outstanding principal balance thereof at the Interest Rate (as defined in ***Appendix A*** hereto). Borrower may elect to borrow Prime Rate Loans or LIBOR Rate Loans, all as more particularly set forth in ***Appendix A*** hereto. During the existence of an Event of Default, Obligations shall accrue interest at a rate per annum equal to two percent (2%) above the rate effective immediately before the Event of Default. The Interest Rate applicable to Prime Rate Loans increases or decreases when the Prime Rate changes. Interest is computed on a 365 day year for the actual number of days elapsed.

2.3.2 Payments. Interest due on the Advances is payable on the first day of each month. Bank may debit any of Borrower's deposit accounts, including account number, for principal and interest payments owing or any amounts Borrower owes Bank. Bank will promptly notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payments received after 12:00 noon Pacific Time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest accrue.

2.4 Fees.

Borrower will pay:

(a) Commitment Fee. A fully earned, non-refundable loan fee Line is due on or before the Restatement Date.

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and expenses) incurred as of the Restatement Date shall be paid by Borrower upon demand. All Bank Expenses (including reasonable attorneys' fees) incurred after the date of this Agreement are payable within 30 days after receipt by Borrower of an invoice therefor.

3. CONDITIONS OF LOANS

3.1 Conditions Precedent to Initial Advance.

Bank's obligation to make the initial Advance is subject to the condition precedent that it shall have received, in form and substance satisfactory to it, the following:

(a) this Agreement;

(b) the reaffirmation of Guaranty of Cypress Semiconductor (Minnesota) Inc.;

(c) [intentionally omitted];

(d) [intentionally omitted];

(e) the resolutions of Borrower's Board of Directors adopted December 7, 2004, shall be in full force and effect and shall not have been modified or revoked;

(f) [intentionally deleted];

(g) evidence of insurance;

(h) payment of the fees and Bank Expenses then due specified in Section 2.4; and

(i) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Advances.

Bank's obligation to make each Advance, including the initial Advance, is subject to the following:

(a) timely receipt of any Payment/Advance Form for a Prime Rate Loan or a LIBOR Rate Borrowing Certificate for a LIBOR Rate Loan;

(b) the representations and warranties in Section 5 must be true in all material respects on the date of the Payment/Advance Form or the LIBOR Rate Borrowing Certificate and on the effective date of each Advance (except that, in each case, representations and warranties in Section 5 made as of a specified earlier date shall be true in all material respects as of such specified earlier date) and no Event of Default may have occurred and be continuing, or result from such Advance. Each Advance is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true in all material respects (except that representations and warranties in Section 5 made as of a specified earlier date shall be true in all material respects as of such specified earlier date); and

(c) there has not been, in Bank's sole discretion, a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations (a ***"Material Adverse Change"***).

4. CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest.

Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Any security interest will be a first priority security interest in the Collateral. If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations (other than inchoate indemnity obligations).

4.2 Authorization to File; Delivery of Additional Documentation.

Borrower authorizes Bank to file financing statements (Form UCC-1) without notice to Borrower, with all appropriate jurisdictions, as Bank deems appropriate, in order to perfect or protect Bank's security interest in the Collateral. Borrower shall execute and deliver to Bank, at the request of Bank, all documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interest in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

5. REPRESENTATIONS AND WARRANTIES

Except as set forth in the Disclosure Letter, Borrower represents and warrants as follows:

5.1 Due Organization; Organizational Structure; Authorization.

Borrower and each Guarantor is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified, except where the failure to do so would not reasonably be expected to cause a Material Adverse Change.

Borrower has not changed its state of formation or organizational structure or type or any organizational number assigned by its jurisdiction of formation in the past five (5) years.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not contravene Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default would reasonably be expected to cause a Material Adverse Change.

5.2 Collateral.

Borrower has good title to the Collateral, free of Liens except Permitted Liens.

5.3 Litigation.

Except as disclosed in Borrower's public filings with the SEC, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, overtly threatened by or against Borrower or any Subsidiary in which a likely adverse decision would reasonably be expected to cause a Material Adverse Change.

5.4 No Material Adverse Change in Financial Statements.

All consolidated financial statements for Borrower delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank that would reasonably be expected to cause a Material Adverse Change.

5.5 Solvency.

The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.6 Regulatory Compliance.

Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Except for loans extended to Borrower's employees in connection with Borrower's employee stock purchase assistance plan, Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which would reasonably be expected to cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally, except to the extent that noncompliance would not reasonably be expected to result in a Material Adverse Change. Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes, except those being contested in good faith with adequate reserves under GAAP. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted, except where the failure to do so would not reasonably be expected to cause a Material Adverse Change.

5.7 Subsidiaries.

Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.8 Full Disclosure.

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank (taken together with all such written certificates and written statements to Bank) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected and forecasted results).

5.9 Designation of Indebtedness under this Agreement as Senior Indebtedness.

All principal of, interest (including all interest accruing after the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding), and all fees, costs, expenses and other amounts accrued or due under this Agreement shall constitute "Designated Senior Indebtedness" under the terms of the 2000 Indenture and the 2003 Indenture, respectively.

6. AFFIRMATIVE COVENANTS

Borrower will do all of the following for so long as Bank has an obligation to lend, or there are outstanding Obligations (other than inchoate indemnity obligations):

6.1 Designated Senior Indebtedness.

Borrower shall designate all principal of, interest (including all interest accruing after the commencement of any bankruptcy or similar proceeding, whether or not a claim for post-petition interest is allowable as a claim in any such proceeding), and all fees, costs, expenses and other amounts accrued or due under this Agreement as "Designated Senior Indebtedness", or such similar term, in any future Subordinated Debt incurred by Borrower after the date hereof, if such Subordinated Debt contains such term or similar term and if the effect of such designation is to grant to Bank the same or similar rights as granted to Bank as a holder of "Designated Senior Indebtedness" under the 2000 Indenture or the 2003 Indenture.

6.2 Government Compliance.

Borrower shall, and shall cause each of its Subsidiaries to, maintain its legal existence and good standing in its jurisdiction of formation and each jurisdiction in which the nature of its business requires them to be so qualified, except where the failure to take such action would not reasonably be expected to have a material adverse effect on Borrower's and its Subsidiaries' business or operations, taken as a whole; provided, that (a) the legal existence of any Subsidiary that is not a Guarantor may be terminated or permitted to lapse, and any qualification of such Subsidiary to do business may be terminated or permitted to lapse, if, in the good faith judgment of Borrower, such termination or lapse is in the best interests of Borrower and its Subsidiaries, taken as a whole, and (b) Borrower may not permit its qualification to do business in the jurisdiction of its chief executive office to terminate or lapse; and provided, further, that this Section 6.2 shall not be construed to prohibit any other transaction that is otherwise permitted in Section 7 of this Agreement.

Borrower will comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change.

6.3 Financial Statements, Reports, Certificates.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 5 days after filing with the SEC and in no event later than 50 days after the end of each fiscal quarter and 95 days after the end of each fiscal year, the Borrower's 10K and 10Q reports; (ii) a Compliance Certificate together with delivery of the 10K and 10Q reports; (iii) within 50 days after the end of each fiscal year, annual financial projections for the following fiscal year (on a quarterly basis) as approved by Borrower's board of directors, together with any related business forecasts used in the preparation of such annual financial projections; (iv) a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of $10,000,000 or more; and (v) budgets, sales projections, operating plans or other financial information Bank reasonably requests.

Borrower's 10K and 10Q reports required to be delivered pursuant to Section 6.3(a)(i) shall be deemed to have been delivered on the date on which Borrower posts such report or provides a link thereto on Borrower's website on the Internet; provided, that Borrower shall provide paper copies to Bank of the Compliance Certificates required by Section 6.3(a)(ii).

(b) Within 45 days after the last day of each quarter, Borrower will deliver to Bank (i) a cash balance report, including account statements detailing cash management types of investments held and maturity dates, and (ii) an accounts receivable aging report, by invoice date.

6.4 Intentionally Omitted.

6.5 Taxes.

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments (other than taxes and assessments which Borrower is contesting in good faith, with adequate reserves maintained in accordance with GAAP) and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.6 Insurance.

Borrower shall maintain in full force and effect insurance of the types customarily carried in its line of business, including, without limitation, self-insurance.

6.7 Financial Covenants.

Borrower will maintain, on a consolidated basis, the following as of the last day of each fiscal quarter:

(a) Tangible Net Worth. A Tangible Net Worth of not less than Four Hundred Sixty Million Dollars ($460,000,000), and increasing by (i) fifty percent (50%) of net income (calculated in accordance with GAAP) but without effect for any loss, and (ii) fifty percent of the net proceeds of the issuance of new equity, in each case for each fiscal quarter ending after the Restatement Date.

(b) Adjusted Quick Ratio. A ratio of (A) unrestricted cash, cash equivalents, short and long term Investments and accounts receivable net of reserves to (B) Current Liabilities less the current portion of deferred revenue, of not less than 1.00:1.00.

6.8 Intentionally Omitted.

6.9 Use of Proceeds.

Borrower shall use the Advances (including Advances constituting Letters of Credit) only for its general working capital requirements, including, without limitation, capital expenditures, and for any other purpose not expressly prohibited hereunder.

6.10 Further Assurances.

Borrower will execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower will not, and will not permit any of its Subsidiaries to, do any of the following without Bank's prior written consent for so long as Bank has an obligation to lend or there are any outstanding Obligations (other than inchoate indemnity obligations):

7.1 Dispositions.

Convey, sell, lease, transfer or otherwise dispose of (collectively "***Transfer***"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for:

(a) Transfers in the ordinary course of business;

(b) Transfers to Borrower or any of its Subsidiaries from Borrower or any of its Subsidiaries;

(c) Transfers of property for fair market value;

(d) Transfers of property in connection with sale-leaseback transactions;

(e) Transfers of property to the extent such property is exchanged for credit against, or proceeds are promptly applied to, the purchase price of other property used or useful in the business of Borrower or its Subsidiaries;

(f) Transfers constituting (i) non-exclusive licenses, (ii) exclusive licenses with respect to geographic locations, or fields of use, or custom products developed for a particular customer;

(g) Transfers otherwise permitted by the Loan Documents;

(h) sales or discounting of delinquent accounts;

(i) Transfers of used, worn-out or obsolete property, or of surplus property for fair market value;

(j) Transfers associated with the making or disposition of a Permitted Investment;

(k) Transfers in connection with a permitted acquisition of a portion of the assets or rights acquired; and

(l) Transfers not otherwise permitted in this Section 7.1, provided, that the aggregate book value of all such Transfers by Borrower and its Subsidiaries, together, shall not exceed in any fiscal year, 10% of Borrower's consolidated total assets as of the last day of the fiscal year immediately preceding the date of determination.

7.2 Changes in Business, Ownership, or Business Locations.

Engage in any material line of business other than those lines of business conducted by Borrower and its Subsidiaries on the date hereof and any businesses reasonably related, complementary or incidental thereto or reasonable extensions thereof. Borrower will not, without prior written notice, change its state of incorporation.

7.3 Mergers or Acquisitions.

Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any Person other than with Borrower or any Subsidiary, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of a Person other than Borrower or any Subsidiary, except where no Event of Default has occurred and is continuing or would result from such action during the term of this Agreement and (a) Borrower is the surviving entity or (b) such merger or consolidation is a Transfer otherwise permitted pursuant to Section 7.1 hereof.

7.4 Indebtedness.

Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 Encumbrance.

Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted hereunder.

7.6 Distributions; Investments.

Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments. Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock, except for Permitted Distributions.

7.7 Transactions with Affiliates.

Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for:

(a) transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms (when viewed in the context of any series of transactions of which it may be a part, if applicable); or

(b) transactions among Borrower and its Subsidiaries and among Borrower's Subsidiaries.

7.8 Subordinated Debt:

Make or permit any payment on or amendments of any Subordinated Debt, except:

(a) payments under the terms of the Subordinated Debt;

(b) payments made with Borrower's capital stock or other Subordinated Debt;

(c) amendments to Subordinated Debt so long as such Subordinated Debt remains subordinated in right of payment to this Agreement; or

(d) payments or prepayments of Subordinated Debt owing pursuant to the 2007 Indenture, provided that no Event of Default then exists or will result from such payment or prepayment.

7.9 Compliance.

Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940, as amended, or use the proceeds of any Advance for the purpose of purchasing or carrying margin stock; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8. EVENTS OF DEFAULT

Any one of the following is an Event of Default:

8.1 Payment Default.

If Borrower fails to pay (a) principal hereunder when due; (b) interest hereunder within 3 Business Days of when due; and (c) any other Obligations hereunder within 30 days of receipt by Borrower of an invoice therefor. During the additional period the failure to cure the default is not an Event of Default (but no Advance will be made during the cure period);

8.2 Covenant Default.

(a) If Borrower does not perform any obligation in Section 6.6 or 6.7 or violates any covenant in Section 7; or

(b) If Borrower does not perform or observe any other material covenant in this Agreement, any Loan Documents, or in any agreement between Borrower and Bank and has not cured the default within 20 days after a Responsible Officer has knowledge of such default;

8.3 Intentionally Omitted.

8.4 Change of Control.

If a Change of Control occurs;

8.5 Attachment.

If 20% or more of consolidated total assets of Borrower is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 10 days, or if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business or if a judgment or other claim becomes a Lien on a material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 10 days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Advances will be made during the cure period);

8.6 Insolvency.

If Borrower becomes insolvent or if Borrower begins an Insolvency Proceeding or an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 60 days (but no Advances will be made before any Insolvency Proceeding is dismissed);

8.7 Other Agreements.

If Borrower fails to (a) make any payment exceeding $10,000,000 of Indebtedness when due and such failure continues after the applicable grace or notice period, if any, specified in the agreement or instrument relating thereto, or (b) perform or observe any other condition or covenant, or any other event shall occur or condition exist under any agreement or instrument relating to any Indebtedness exceeding $10,000,000, and such failure continues after the applicable grace or notice period, if any, specified in the agreement or instrument relating thereto and the effect of such failure, event or condition is to cause the holder or holders of such Indebtedness to accelerate the maturity of such Indebtedness or cause the mandatory repurchase of any Indebtedness exceeding $10,000,000;

8.8 Judgments.

If a money judgment(s) in the aggregate of at least $10,000,000 (not covered by insurance) is rendered against Borrower and is unsatisfied and unstayed for 30 days (but no Advances will be made before the judgment is stayed or satisfied);

8.9 Misrepresentations.

If Borrower or any Person acting for Borrower makes any material misrepresentation or material misstatement in any warranty or representation in this Agreement or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document; or

8.10 Guaranty.

Any guaranty of any Obligations ceases for any reason to be in full force or any Guarantor does not perform any material obligation under any guaranty of the Obligations, or any material misrepresentation or material misstatement exists as of the date made or deemed made in any warranty or representation in any guaranty of the Obligations or in any certificate delivered to Bank by a Guarantor in connection with any guaranty, or any circumstance described in Sections 8.4, 8.6 or 8.8 occurs to any Guarantor.

9. BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies.

When an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.6 occurs all Obligations are immediately due and payable without any action by Bank);

(b) Stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) Make any payments and do any acts it considers necessary or reasonable to protect its security interest in the Collateral;

(d) Apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower; and

(e) Dispose of the Collateral according to the Code.

9.2 Power of Attorney.

Effective only when an Event of Default occurs and continues, Borrower irrevocably appoints Bank as its lawful attorney to (a) endorse Borrower's name on any checks or other forms of payment or security relating to the Collateral and (b) transfer the Collateral into the name of Bank or a third party as the Code permits. Bank may exercise the power of attorney to sign Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations (other than inchoate indemnity obligations) have been fully repaid and performed and Bank's obligation to provide Advances terminates.

9.3 Bank Expenses.

Any amounts paid by Bank in connection with this Agreement are Bank Expenses and immediately due and payable, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.4 Bank's Liability for Collateral.

If Bank complies with reasonable banking practices and the Code, it is not liable for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; or (c) any diminution in the value of the Collateral.

9.5 Remedies Cumulative.

Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

9.6 Demand Waiver.

Except as otherwise required in this Agreement, Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, or release.

10. NOTICES

All notices or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by facsimile to the addresses set forth at the beginning of this Agreement. A party may change its notice address by giving the other party written notice.

11. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

California law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Santa Clara County, California.

TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of the Santa Clara County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Santa Clara County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Santa Clara County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and order applicable to judicial proceedings in the same manner as a trial court judge. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to the California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against collateral, or obtain provisional remedies as permitted under the Code. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

12. General Provisions

12.1 Successors and Assigns.

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights under it without Bank's prior written consent which may be granted or withheld in Bank's discretion. Bank has the right, without the consent of or prior notice to Borrower, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement to any other bank or financial institution.

12.2 Indemnification.

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or consequential to transactions between Bank and Borrower (including reasonable attorneys fees and expenses), except with respect to (a) and (b) above, for losses caused by Bank's and its officers', employees', and agents' gross negligence or willful misconduct.

12.3 Time of Essence.

Time is of the essence for the performance of all obligations in this Agreement.

12.4 Severability of Provision.

Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 Amendments in Writing; Integration.

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement are superseded by this Agreement and the Loan Documents.

12.6 Counterparts.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.

12.7 Survival.

All covenants, representations and warranties made in this Agreement continue in full force while any Obligations (other than inchoate indemnity obligations) remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

12.8 Confidentiality.

In handling any confidential or non-public information concerning the Borrower and its Subsidiaries, Bank will maintain the confidentiality of such information, but disclosure of information may be made (a) to Bank's subsidiaries or affiliates in connection with their business with Borrower, provided they are bound by this confidentiality provision, (b) to prospective transferees or purchasers of any interest in the loans, provided they are bound by this confidentiality provision, (c) as required by law, regulation, subpoena, or other order, (d) as required in connection with Bank's examination or audit, provided that any Person receiving confidential or non-public information is bound by this confidentiality provision or similar regulations, and (e) as Bank considers appropriate exercising remedies under this Agreement, provided that any Person receiving confidential or non-public information is bound by this confidentiality provision or similar regulations. Confidential information does not include information that either: (x) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (y) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 Attorneys' Fees, Costs and Expenses.

In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other reasonable costs and expenses incurred, in addition to any other relief to which it may be entitled.

13. DEFINITIONS

In this Agreement:

"***2007 Indenture***" is that is that certain Indenture dated as of March 13, 2007, by and between Borrower, as issuer, and U.S. Bank National Association, as trustee, relating to the convertible senior notes due September 15, 2009, as supplemented from time to time.

"***Accounts***" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"***Advance***" or "***Advances***" is a loan advance (or advances) under the Committed Revolving Line, including Advances used to (i) fund Letters of Credit, or (ii) extend financial accommodations for Cash Management Services to the extent that Borrower and Bank have agreed in writing to extend financial accommodations pursuant to the terms of Section 2.1.4.

"***Affiliate***" of a Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"***Bank Expenses***" are all audit fees and expenses and reasonable costs and expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"***Borrower's Books***" are all Borrower's books and records including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

"***Business Day***" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"***Cash Management Services***" are defined in Section 2.1.4.

"***Change in Control***" is a transaction in which any "***person***" or "***group***" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) becomes the "***beneficial owner***" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, of greater than 35% of the shares of all classes of stock then outstanding of Borrower ordinarily entitled to vote in the election of directors.

"***Code***" is the Uniform Commercial Code in effect in any applicable jurisdiction.

"***Collateral***" is the property described as such in the Pledge Agreement.

"***Committed Revolving Line***" is an Advance or Advances not to exceed a principal amount outstanding at any time of $55,000,000.

"***Compliance Certificate***" is a Compliance Certificate signed by a Responsible Officer in substantially the same form of Exhibit C attached hereto.

"***Contingent Obligation***" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "***Contingent Obligation***" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"***Copyrights***" are all copyright rights, applications or registrations and like protections in each work or authorship or derivative work, whether published or not (whether or not it is a trade secret) now or later existing, created, acquired or held.

"***Current Liabilities***" are the aggregate amount of Total Liabilities which mature within one (1) year.

"***Disclosure Letter***" means the disclosure letter, dated as of the Original Closing Date, addressed from Borrower to Bank, as amended or amended and restated from time to time.

"***ERISA***" is the Employment Retirement Income Security Act of 1974, as amended, and its regulations.

"***GAAP***" is generally accepted accounting principles.

"***Guarantor***" is Cypress Semiconductor (Minnesota) Inc.

"***Guaranty***" is the Unconditional Guaranty dated as of the Original Closing Date and executed by each Guarantor.

"***Indebtedness***" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"***Insolvency Proceeding***" are proceedings by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"***Investment***" is any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"***Letter of Credit***" is defined in Section 2.1.2.

"***Letter of Credit Fees***" is defined in Section 2.1.2.

"***Lien***" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"***Loan Documents***" are, collectively, this Agreement, any note, or notes or guaranties executed by Borrower or Guarantor, any pledge agreements, and any other present or future agreement between Borrower and Bank or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

"Material Adverse Change" has the meaning set forth in Section 3.2(c) hereof.

"***Maturity Date***" is March 1, 2010.

"Net Worth" means, on any date of determination, the consolidated total assets of Borrower *minus* Total Liabilities (in each case in accordance with GAAP).

"***Obligations***" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later in connection with this Agreement, including cash management services and letters of credit, if any, and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"Original Closing Date" is September 25, 2003.

"***Patents***" are patents, patent applications and like protections, including improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"***Permitted Distributions***" means:

(a) purchases of capital stock from former employees, consultants and directors pursuant to repurchase agreements or other similar agreements;

(b) distributions or dividends consisting solely of Borrower's capital stock;

(c) purchases for value of any rights distributed in connection with any stockholder rights plan;

(d) purchases of capital stock or options to acquire such capital stock with the proceeds received from a substantially concurrent issuance of capital stock or convertible securities;

(e) purchases of capital stock pledged as collateral for loans to employees;

(f) purchases of capital stock in connection with the exercise of stock options or stock appreciation rights by way of cashless exercise or in connection with the satisfaction of withholding tax obligations;

(g) purchases of fractional shares of capital stock arising out of stock dividends, splits or combinations or business combinations;

(h) the settlement or performance of such Person's obligations under any equity derivative transaction, option contract or similar transaction or combination of transactions; and

(i) other distributions, dividends or purchases of Borrower's capital stock in cash, provided that the aggregate amount of such distributions, dividends, or purchases made pursuant to this clause (i) during the period commencing on the Restatement Date and ending on the date of determination, when combined with purchases of Subordinated Debt during such period, shall not exceed 50% of Borrower's consolidated positive cash flow for the period beginning on March 31, 2009, and ending on the last day of the fiscal quarter immediately preceding the date of determination, and no Event of Default exists or will result from such other distribution, dividend, or purchase.

"***Permitted Indebtedness***" is:

(a) Borrower's Indebtedness to Bank under this Agreement or any other Loan Document;

(b) (i) Any Indebtedness that does not exceed $5,000,000 in principal amount existing on the Original Closing Date, and (ii) any Indebtedness in excess of $5,000,000 in principal amount existing on the Original Closing Date and shown on the Disclosure Letter;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors and with respect to surety bonds and similar obligations;

(e) Guaranties of Permitted Indebtedness;

(f) Indebtedness consisting of interest rate, currency, or commodity swap agreements, interest rate cap or collar agreements or arrangements designated to protect a Person against fluctuations in interest rates, currency exchange rates, or commodity prices;

(g) Indebtedness between Borrower and any of its Subsidiaries or among any of Borrower's Subsidiaries;

(h) [intentionally omitted];

(i) Indebtedness with respect to documentary letters of credit;

(j) Capitalized leases and purchase money Indebtedness secured by Permitted Liens;

(k) Indebtedness of entities acquired in any permitted merger or acquisition transaction;

(l) Refinanced Permitted Indebtedness, provided that the amount of such Indebtedness is not increased except by an amount equal to a reasonable premium or other reasonable amount paid in connection with such refinancing and by an amount equal to any existing, but unutilized, commitment thereunder; and

(m) Other Indebtedness, if, on the date of incurring any Indebtedness pursuant to this subsection (m), the outstanding aggregate amount of all Indebtedness incurred pursuant to this subsection (m) does not exceed 20% of Borrower's consolidated total assets calculated as of the end of the immediately prior fiscal quarter.

"***Permitted Investments***" are:

(a) Investments existing on the Original Closing Date;

(b) (i) Marketable direct obligations issued or unconditionally guaranteed by the United States or its agencies or any State maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 2 years after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than 2 years after issue;

(c) Investments approved by the Borrower's Board of Directors or otherwise pursuant to a Board-approved investment policy;

(d) Investments in or to Borrower or any of its Subsidiaries;

(e) Investments consisting of deposit and investment accounts in the name of Borrower or any Subsidiary;

(f) Investments consisting of extensions of credit to Borrower's or its Subsidiaries' customers in the nature of accounts receivable, prepaid royalties or notes receivable arising from the sale or lease of goods, provision of services or licensing activities of Borrower;

(g) Investments received in satisfaction or partial satisfaction of obligations owed by financially troubled obligors;

(h) Investments acquired in exchange for any other Investments in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization;

(i) Investments acquired as a result of a foreclosure with respect to any secured Investment;

(j) Investments consisting of interest rate, currency, or commodity swap agreements, interest rate cap or collar agreements or arrangements designated to protect a Person against fluctuations in interest rates, currency exchange rates, or commodity prices;

(k) Investments consisting of loans and advances to employees; and

(l) Other Investments, if, on the date of incurring any Investments pursuant to this subsection (l), the outstanding aggregate amount of all Investments incurred pursuant to this subsection (l) does not exceed 20% of Borrower's consolidated total assets calculated as of the end of the immediately prior fiscal quarter.

"***Permitted Liens***" are:

(a) (i) Liens existing on the Original Closing Date securing Indebtedness that does not exceed $5,000,000 in principal amount and (ii) Liens existing on the Original Closing Date securing Indebtedness in excess of $5,000,000 in principal amount and shown on the Disclosure Letter or (iii) Liens arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) Liens (including with respect to capital leases) (i) on property (including accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof) acquired or held by Borrower or its Subsidiaries incurred for financing such property (including accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof), or (ii) existing on property (and accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof) when acquired, if the Lien is confined to such property (including accessions, additions, parts, replacements, fixtures, improvements and attachments thereto, and the proceeds thereof);

(d) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (s), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness it secures may not increase;

(e) Licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a licensor or under any license or sublicense, if the licenses and sublicenses permit granting Bank a security interest;

(f) Leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;

(g) Liens in favor of custom and revenue authorities arising as a matter of law to secure the payment of custom duties in connection with the importation of goods;

(h) Liens on insurance proceeds securing the payment of financed insurance premiums;

(i) Customary Liens granted in favor of a trustee to secure fees and other amounts owing to such trustee under an indenture or other similar agreement;

(j) Liens on assets acquired in mergers and acquisitions not prohibited by the covenant limiting mergers and acquisitions;

(k) Liens consisting of pledges of cash, cash equivalents or government securities to secure swap or foreign exchange contracts or letters of credit;

(l) Liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default under Sections 8.5 or 8.8;

(m) Liens in favor of other financial institutions arising in connection with Borrower's deposit or securities accounts held at such institutions;

(n) Carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceeding if adequate reserves with respect thereto are maintained on the books of the applicable Person;

(o) Pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(p) Deposits to secure the performance of bids, trade contracts (other than for borrowed money), contracts for the purchase of property, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case, incurred in the ordinary course of business and not representing an obligation for borrowed money;

(q) Easements, rights-of-way, restrictions and other similar encumbrances affecting real property which do not materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person; and

(r) [Intentionally omitted]; and

(s) Liens not otherwise permitted, provided that the amount of all such Liens is not in excess of 10% of Borrower's consolidated total assets calculated as of the end of the immediately prior fiscal quarter (with any such Lien valued as the amount of the obligation secured by such Lien).

"***Person***" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"Pledge Agreements" are the Stock Pledge Agreement (100% Pledge) and the Stock Pledge Agreement (65% Pledge) dated as of the Original Closing Date by Borrower in favor of Bank.

"***Responsible Officer***" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Treasurer of Borrower.

"Restatement Date" is March 2, 2009.

"***SEC***" means the Securities and Exchange Commission.

"***Subordinated Debt***" is (a) Indebtedness incurred by Borrower subordinated to Borrower's Indebtedness owed to Bank and which is reflected in a written agreement in a manner and form reasonably acceptable to Bank and approved by Bank in writing, and (b) all Indebtedness under the 2007 Indenture, and (c) to the extent the terms of subordination do not change adversely to Bank, refinancings, refundings, renewals, amendments or extensions of any of the foregoing.

"***Subsidiary***" is for any Person, or any other business entity of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

"***Tangible Net Worth***" is, on any date, the consolidated total assets of Borrower and its Subsidiaries *plus* (i) the aggregate amount of cash consideration paid in connection with a stock repurchase on or after the Restatement Date, not to exceed $30,000,000, and (ii) up to $50,000,000 in incremental goodwill and/or intangible assets resulting from acquisitions occurring between June 30, 2009 and December 31, 2009, *minus* (i) the net capitalized stock compensation accumulated since March 31, 2009, (ii) any amounts attributable to (a) goodwill (except to the extent added above), (b) intangible items (except to the extent added above) such as unamortized debt discount and expense, Patents, Trademarks, Copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, and (iii) Total Liabilities.

"***Total Liabilities***" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness.

"***Trademarks***" are trademark and servicemark rights, registered or not, applications to register and registrations and like protections, and the entire goodwill of the business of Assignor connected with the trademarks.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first set forth above.

BORROWER:

CYPRESS SEMICONDUCTOR CORPORATION

By: ______________________________

Printed Name: ______________________________

Title: ______________________________

BANK:

SILICON VALLEY BANK

By: ______________________________

Printed Name: ______________________________

Title: ______________________________

APPENDIX A

LIBOR SUPPLEMENT

1. Definitions.

"***Business Day***" means, with respect to LIBOR Rate Loans, a day of the year (a) that is not a Saturday, Sunday or other day on which banks in the State of California or the City of London are authorized or required to close and (b) on which dealings are carried on in the interbank market in which Bank customarily participates.

"***Interest Period***" means for each LIBOR Rate Loan, a period of approximately one, two or three months as the Borrower may elect, *provided* that the last day of an Interest Period for a LIBOR Rate Loan shall be determined in accordance with the practices of the LIBOR interbank market as from time to time in effect, *provided, further*, in all cases such period shall expire not later than the applicable Maturity Date.

"***Interest Rate***" shall mean as to: (a) Prime Rate Loans, a rate equal to the Prime Rate (which shall not be less than 4.00%); and (b) LIBOR Rate Loans, a rate of 2.50% per annum in excess of the LIBOR Rate (based on the LIBOR Rate applicable for the Interest Period selected by the Borrower).

"***LIBOR Base Rate***" means, for any Interest Period for a LIBOR Rate Loan, the rate of interest per annum determined by Bank to be the per annum rate of interest as which deposits in United States Dollars are offered to Bank in the London interbank market in which Bank customarily participates at 11:00 a.m. (local time in such interbank market) two (2) Business Days before the first day of such Interest Period for a period approximately equal to such Interest Period and in an amount approximately equal to the amount of such Loan.

"***LIBOR Rate***" shall mean, for any Interest Period for a LIBOR Rate Loan, a rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) equal to (i) the LIBOR Base Rate for such Interest Period divided by (ii) 1 minus the Reserve Requirement for such Interest Period, but in no event shall the LIBOR Rate be less than 1.00%.

"***LIBOR Rate Loans***" means any Advances made or a portion thereof on which interest is payable based on the LIBOR Rate in accordance with the terms hereof.

"***Prime Rate***" means the variable rate of interest per annum, most recently announced by Bank as its "prime rate," whether or not such announced rate is the lowest rate available from Bank. The interest rate applicable to the Prime Rate Loans shall change on each date there is a change in the Prime Rate.

"***Prime Rate Loans***" means any Advances made or a portion thereof on which interest is payable based on the Prime Rate in accordance with the terms hereof.

"***Regulatory Change***" means, with respect to Bank, any change on or after the date of this Loan Agreement in United States federal, state or foreign laws or regulations, including Regulation D, or the adoption or making on or after such date of any interpretations, directives or requests applying to a class of lenders including Bank of or under any United States federal or state, or any foreign, laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"***Reserve Requirement***" means, for any Interest Period, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D against "Eurocurrency liabilities" (as such term is used in Regulation D) by member banks of the Federal Reserve System. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by Bank by reason of any Regulatory Change against (i) any category of liabilities which includes deposits by reference to which the LIBOR Rate is to be determined as provided in the definition of "LIBOR Base Rate" or (ii) any category of extensions of credit or other assets which include Loans.

2. Requests for Loans. Each LIBOR Rate Loan shall be made upon the irrevocable written request of Borrower received by Bank not later than 11 :00 a.m. (Santa Clara, California time) on the Business Day three (3) Business Days prior to the date such Loan is to be made. Each such notice shall specify the date such Loan is to be made, which day shall be a Business Day; the amount of such Loan, the Interest Period for such Loan, and comply with such other requirements as Bank determines are reasonable or desirable in connection therewith.

Each written request for a LIBOR Rate Loan shall be in the form of a LIBOR Rate Loan Borrowing Certificate as set forth on Exhibit A, which shall be duly executed by the Borrower.

Each Prime Rate Loan shall be made upon the irrevocable written request of Borrower received by Bank not later than 11:00 a.m. (Santa Clara, California time) on the Business Day one (1) Business day prior to the date such Loan is to be made. Each such notice shall specify the date such Loan is to be made, which day shall be a Business Day and the amount of such Loan, and comply with such other requirements as Bank determines are reasonable or desirable in connection therewith.

3. Conversion/Continuation of Loans.

(a) Borrower may from time to time submit in writing a request that Prime Rate Loans be converted to LIBOR Rate Loans or that any existing LIBOR Rate Loans continue for an additional Interest Period. Such request shall specify the amount of the Prime Rate Loans which will constitute LIBOR Rate Loans (subject to the limits set forth below) and the Interest Period to be applicable to such LIBOR Rate Loans. Each written request for a conversion to a LIBOR Rate Loan or a continuation of a LIBOR Rate Loan shall be substantially in the form of a LIBOR Rate Conversion/Continuation Certificate as set forth on Exhibit B to this Supplement which shall be duly executed by the Borrower. Subject to the terms and conditions contained herein, three (3) Business Days after Bank's receipt of such a request from Borrower, such Prime Rate Loans shall be converted to LIBOR Rate Loans or such LIBOR Rate Loans shall continue, as the case may be provided that:

(i) no Event of Default or event which with notice or passage of time or both would constitute an Event of Default exists;

(ii) no party hereto shall have sent any notice of termination of this Supplement or of the Loan Agreement;

(iii) Borrower shall have complied with such customary procedures as Bank has established from time to time for Borrower's requests for LIBOR Rate Loans;

(iv) the amount of a LIBOR Rate Loan shall be $1,000,000 or such greater amount which is an integral multiple of $500,000; and

(v) Bank shall have determined that the Interest Period or LIBOR Rate is available to Bank which can be readily determined as of the date of the request for such LIBOR Rate Loan.

Any request by Borrower to convert Prime Rate Loans to LIBOR Rate Loans or continue any existing LIBOR Rate Loans shall be irrevocable. Notwithstanding anything to the contrary contained herein, Bank shall not be required to purchase United States Dollar deposits in the London interbank market or other applicable LIBOR Rate market to fund any LIBOR Rate Loans, but the provisions hereof shall be deemed to apply as if Bank had purchased such deposits to fund the LIBOR Rate Loans.

(b) Any LIBOR Rate Loans shall automatically convert to Prime Rate Loans upon the last day of the applicable Interest Period, unless Bank has received and approved a complete and proper request to continue such LIBOR Rate Loan at least three (3) Business Days prior to such last day in accordance with the terms hereof. Any LIBOR Rate Loans shall, at Bank's option, convert to Prime Rate Loans in the event that (i) an Event of Default, or event which with the notice or passage of time or both would constitute an Event of Default, shall exist, (ii) this Supplement or the Loan Agreement shall terminate, or (iii) the aggregate principal amount of the Prime Rate Loans which have previously been converted to LIBOR Rate Loans, or the aggregate principal amount of existing LIBOR Rate Loans continued, as the case may be, at the beginning of an Interest Period shall at any time during such Interest Period exceeds the Committed Revolving Line. Borrower agrees to pay to Bank, upon demand by Bank (or Bank may, at its option, charge Borrower's loan account) any amounts required to compensate Bank for any loss (including loss of anticipated profits), cost or expense incurred by such person, as a result of the conversion of LIBOR Rate Loans to Prime Rate Loans pursuant to any of the foregoing.

(c) On all Loans, Interest shall be payable by Borrower to Bank monthly in arrears not later than the first (1^{st}) day of each calendar month at the applicable Interest Rate.

4. Additional Requirements/Provisions Regarding LIBOR Rate Loans, Etc.

(a) If for any reason (including voluntary or mandatory prepayment or acceleration), Bank receives all or part of the principal amount of a LIBOR Rate Loan prior to the last day of the Interest Period for such Loan, Borrower shall immediately notify Borrower's account officer at Bank and, on demand by Bank, pay Bank the amount (if any) by which (i) the additional interest which would have been payable on the amount so received had it not been received until the last day of such Interest Period exceeds (ii) the interest which would have been recoverable by Bank by placing the amount so received on deposit in the certificate of deposit markets or the offshore currency interbank markets or United States Treasury investment products, as the case may be, for a period starting on the date on which it was so received and ending on the last day of such Interest Period at the interest rate determined by Bank in its reasonable discretion. Bank's determination as to such amount shall be conclusive absent manifest error.

(b) Borrower shall pay to Bank, upon demand by Bank, from time to time such amounts as Bank may determine to be necessary to compensate it for any costs incurred by Bank that Bank determines are attributable to its making or maintaining of any amount receivable by Bank hereunder in respect of any Loans relating thereto (such increases in costs and reductions in amounts receivable being herein called "***Additional Costs***"), in each case resulting from any Regulatory Change which:

(i) changes the basis of taxation of any amounts payable to Bank under this Supplement in respect of any Loans (other than changes which affect taxes measured by or imposed on the overall net income of Bank by the jurisdiction in which such Bank has its principal office); or

(ii) imposes or modifies any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of Bank (including any Loans or any deposits referred to in the definition of "LIBOR Base Rate"); or

(iii) imposes any other condition affecting this Supplement (or any of such extensions of credit or liabilities).

Bank will notify Borrower of any event occurring after the date of the Loan Agreement which will entitle Bank to compensation pursuant to this section as promptly as practicable after it obtains knowledge thereof and determines to request such compensation. Bank will furnish Borrower with a statement setting forth the basis and amount of each request by Bank for compensation under this Section 4. Determinations and allocations by Bank for purposes of this Section 4 of the effect of any Regulatory Change on its costs of maintaining its obligations to make Loans or of making or maintaining Loans or on amounts receivable by it in respect of Loans, and of the additional amounts required to compensate Bank in respect of any Additional Costs, shall be conclusive absent manifest error.

(c) Borrower shall pay to Bank, upon the request of Bank, such amount or amounts as shall be sufficient (in the sole good faith opinion of such Bank) to compensate it for any loss, costs or expense incurred by it as a result of any failure by Borrower to borrow a Loan on the date for such borrowing specified in the relevant notice of borrowing hereunder.

(d) If Bank shall determine that the adoption or implementation of any applicable law, rule, regulation or treaty regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Bank (or its applicable lending office) with any respect or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of Bank or any person or entity controlling Bank (a "***Parent***") as a consequence of its obligations hereunder to a level below that which Bank (or its Parent) could have achieved but for such adoption, change or compliance (taking into consideration its policies with respect to capital adequacy) by an amount deemed by Bank to be material, then from time to time, within 15 days after demand by Bank, Borrower shall pay to Bank such additional amount or amounts as will compensate Bank for such reduction. A statement of Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive absent manifest error.

(e) If at any time Bank, in its sole and absolute discretion, determines that: (i) the amount of the LIBOR Rate Loans for periods equal to the corresponding Interest Periods are not available to Bank in the offshore currency interbank markets, or (ii) the LIBOR Rate does not accurately reflect the cost to Bank of lending the LIBOR Rate Loan, then Bank shall promptly give notice thereof to Borrower, and upon the giving of such notice Banks obligation to make the LIBOR Rate Loans shall terminate, unless Bank and the Borrower agree in writing to a different interest rate Loans shall terminate, unless Bank and the Borrower agree in writing to a different interest rate applicable to LIBOR Rate Loans. If it shall become unlawful for Bank to continue to fund or maintain any Loans, or to perform its obligations hereunder, upon demand by Bank, Borrower shall prepay the Loans in full with accrued interest thereon and all other amounts payable by Borrower hereunder (including, without limitation, any amount payable in connection with such prepayment pursuant to Section 4(a) of this Supplement).

EXHIBIT A TO LIBOR SUPPLEMENT

LIBOR RATE LOAN BORROWING CERTIFICATE

The undersigned hereby certifies as follows:

I, __________________, am the duly elected and acting __________________ of Cypress Semiconductor Corporation ("***Borrower***").

This certificate is delivered pursuant to Section 2 of that certain LIBOR Supplement to Agreement together with the Amended and Restated Loan and Security Agreement by and between Borrower and **SILICON VALLEY BANK** ("***Bank***) (the "***Loan Agreement***"). The terms used in this Borrowing Certificate which are defined in the Loan Agreement have the same meaning herein as ascribed to them therein .

Borrower hereby requests on __________________, 200_ a LIBOR Rate Loan (the "***Loan***") as follows:

(a) The date on which the Loan is to be made is _________, 200_.

(b) The amount of the Loan is to be __________________($______________) for an Interest Period of _____ month(s).

All representations and warranties of Borrower stated in the Loan Agreement are true, correct and complete in all material respects as of the date of this request for a loan; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

IN WITNESS WHEREOF, this Borrowing Base Certificate is executed by the undersigned as of this ____ day of _________, 200_.

CYPRESS SEMICONDUCTOR CORPORATION

By: ______________________________

Title: ______________________________

For Internal Bank Use Only

LIBOR Pricing Date	I LIBOR Rate	I LIBOR Rate Variance	Maturity Date
		___%	

EXHIBIT B TO LIBOR SUPPLEMENT

LIBOR RATE CONVERSION/CONTINUATION CERTIFICATE

The undersigned hereby certifies as follows:

1, __________________, am the duly elected and acting _______________ of Cypress Semiconductor Corporation ("***Borrower***").

This certificate is delivered pursuant to Section 2 of that certain LIBOR Supplement to Agreement together with the Amended and Restated Loan and Security Agreement by and between Borrower and **SILICON VALLEY BANK** ("***Bank***") (the "***Loan Agreement***"). The terms used in this LIBOR Rate Conversion/Continuation Certificate which are defined in the Loan Agreement .have the same meaning herein as ascribed to them therein.

Borrower hereby requests on _________, 200_ a LIBOR Rate Loan (the "***Loan***") as follows:

(a) ☐ **(i)** A rate conversion of an existing Prime Rate Loan from a Prime Rate Loan to a LIBOR Rate Loan; or

☐ **(ii)** A continuation of an existing LIBOR Rate Loan as a LIBOR Rate Loan;

[*Check (i) or (ii) above*]

(b) The date on which the Loan is to be made is _________, 200_.

(c) The amount of the Loan is to be _________($__________), for an Interest Period of _________ month(s).

All representations and warranties of Borrower stated in the Loan Agreement are true, correct and complete in all material respects as of the date of this request for a loan; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

IN WITNESS WHEREOF, this LIBOR Rate Conversion/Continuation Certificate is executed by the undersigned as of this ____ day of __________, 200_.

CYPRESS SEMICONDUCTOR CORPORATION

By: ______________________________

Title: ______________________________

For Internal Bank Use Only

LIBOR Pricing Date	I LIBOR Rate	I LIBOR Rate Variance	Maturity Date
		___%	

EXHIBIT A

[intentionally omitted]

EXHIBIT B

PRIME RATE LOAN PAYMENT/ADVANCE REQUEST FORM
DEADLINE FOR SAME DAY PROCESSING IS 12:00 NOON PACIFIC TIME

Fax To: ___________________ Date: ___________________

Borrower: Cypress Semiconductor Corporation

☐ Loan Payment:

From Account #_____________________________ (Name and Deposit Account #)

To Account #_____________________________ (Loan Account #)

Principal $_____________________________ and/or Interest $_____________________________

Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on and as of the date hereof, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

Authorized Signature:_____________________________ Phone Number: _____________________________

☐ **LOAN ADVANCE:**

Complete *Outgoing Wire Request* section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account #_____________________________ (Loan Account #)

To Account #_____________________________ (Name and Deposit Account #)

Amount of Advance $_____________________________

Borrower's representations and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on and as of the date of the requested Advance, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

Authorized Signature:_____________________________ Phone Number: _____________________________

OUTGOING WIRE REQUEST

Complete only if all or a portion of funds from the *loan advance* above are to be wired.
Deadline for same day processing is 12:00 noon, Pacific Time

Beneficiary Name:_____________________________
Beneficiary Bank: _____________________________
City and State: _____________________________
Beneficiary Bank Transit (ABA) #:________________

Amount of Wire: $_____________________________
Account Number:_____________________________

Beneficiary Bank Code (Swift, Sort, Chip, etc.):______

(For International Wire Only)

Intermediary Bank:_____________________________

Transit (ABA) #:_____________________________

For Further Credit to:_____________________________
Special Instruction:_____________________________

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature:	______________________	2nd Signature (if required):	______________________
Print Name/Title:	______________________	Print Name/Title:	______________________
Telephone #	______________________	Telephone #	______________________

EXHIBIT C

COMPLIANCE CERTIFICATE

TO: SILICON VALLEY BANK
3003 Tasman Drive
Santa Clara, CA 95054

FROM: Cypress Semiconductor Corporation
198 Champion Court, Building 6
3rd Floor, San Jose, California, 95134

The undersigned authorized officer of **CYPRESS SEMICONDUCTOR CORPORATION** ("Borrower") certifies that under the terms and conditions of the Amended and Restated Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending __________________ with all required covenants, except as noted below, and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date (but those representations and warranties expressly referring to another date shall be true, correct, and complete in all material respects as of such date). Attached are the required documents supporting the certification. The undersigned officer certifies that such documents were prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next, except as explained in an accompanying letter or footnotes. The undersigned officer acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered.

Please indicate compliance status by circling Yes/No under "Complies" column.

Financial Covenant	**Required**	**Actual**	**Complies**	
Maintain on a Quarterly Basis:				
Adjusted Quick Ratio	Not less than 1.00:1.00	$___________	Yes	No
Tangible Net Worth	Not less than $460,000,000	$___________	Yes	No

Reporting Covenant	**Required**	**Complies**	
Cash holding report	Quarterly within 45 days	Yes	No
A/R Aging	Quarterly within 45 days	Yes	No
10K and 10Q reports	Within 5 days of filing	Yes	No
Compliance Certificate	With SEC reports	Yes	No
Financial Projections	Annually within 50 days of FYE	Yes	No

Sincerely,

CYPRESS SEMICONDUCTOR CORPORATION

____
SIGNATURE

____
TITLE

____
Date

BANK USE ONLY

Received by: ______________________________
AUTHORIZED SIGNER

Date: ______________________________

Verified: ______________________________
AUTHORIZED SIGNER

Date: ______________________________

Compliance Status: Yes No

ACKNOWLEDGEMENT, CONSENT AND
REAFFIRMATION OF GUARANTOR

The undersigned ("***Guarantor***") executed an Unconditional Guaranty in favor of **SILICON VALLEY BANK** ("***Bank***") in respect of the Loan and Security Agreement, dated as of September 25, 2003 (as amended from time to time, the "***Loan Agreement***"), by and between **CYPRESS SEMICONDUCTOR CORPORATION** ("***Borrower***") and Bank and hereby acknowledge that it has received a copy of, and has read, that certain Amended and Restated Loan and Security Agreement ("***Restated Loan Agreement***") dated as of March 2, 2009, between Borrower and Bank. Guarantor (i) consents to all amendments and modifications made by the Restated Loan Agreement, (ii) reconfirms and ratifies the Unconditional Guaranty to which Guarantor is a party (iii) agrees that notwithstanding anything to the contrary in the Unconditional Guaranty, Guarantor's obligations thereunder shall be in an amount not to exceed $50,000,000, and (iv) agrees that, except as provided in clause (iii) hereof, such Unconditional Guaranty shall remain in full force and effect with respect to the Restated Loan Agreement and all obligations thereunder; and that the consent, amendments and modifications shall not act as a limitation on Guarantor's liability under its Unconditional Guaranty.

Dated: as of March 2, 2009

Guarantor:

CYPRESS SEMICONDUCTOR (MINNESOTA), INC.

By: ______________________

Name: ______________________

Title: ______________________

Exhibit 31.1

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

I, T.J. Rodgers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cypress Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2009

By: /s/ T.J. RODGERS
T.J. Rodgers
President and Chief Executive Officer

Exhibit 31.2

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

I, Brad W. Buss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cypress Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 8, 2009

By: /s/ BRAD W. BUSS
Brad W. Buss
Executive Vice President, Finance and Administration and Chief Financial Officer

Exhibit 32.1

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

I, T.J. Rodgers, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Cypress Semiconductor Corporation for the quarter ended March 29, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: May 8, 2009

By: /s/ T.J. RODGERS
T.J. Rodgers
President and Chief Executive Officer

Exhibit 32.2

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

I, Brad W. Buss, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Cypress Semiconductor Corporation for the quarter ended March 29, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: May 8, 2009

By: /s/ BRAD W. BUSS

Brad W. Buss

Executive Vice President, Finance and Administration and Chief Financial Officer