

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

[Fee Required]

For the fiscal year ended January 2, 2000

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

[No Fee Required]

For the transition period from _____ to _____.

Commission File Number: 1-10079

Cypress Semiconductor Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

94-2885898
(I.R.S. Employer Identification No.)

3901 North First Street, San Jose, California 95134-1599
(Address of principal executive offices and zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange

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

None

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

At March 3, 2000, registrant had outstanding 112,787,375 shares of Common Stock.

The market value of voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on March 3, 2000 on the

Exchange, was approximately \$4,636,000,000. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the Proxy Statement for Registrant's 2000 Annual Meeting of Stockholders are incorporated by reference in Items 9, 10, 11 and 12 of Part III of this 10-K Report.

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PART I

ITEM I. BUSINESS

This Item contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of the factors set forth in "Risk Factors" and elsewhere in this Report.

General

Cypress Semiconductor Corporation designs, develops, manufactures and markets a broad line of high-performance digital and mixed-signal integrated circuits for a range of markets, including data communications, telecommunications, computers, and instrumentation systems. We currently offer approximately 500 products from our two business segments; memory products and non-memory products. Our products are marketed worldwide through a network of 25 North American sales offices, 6 North American distributors, 26 U.S. sales representative firms, 7 European sales offices, 2 Japanese sales offices, 2 Chinese sales offices, an office in Singapore, an office in Korea, an office in Taiwan, and 39 international sales representative firms. We sell our products to a wide range of customers, including Lucent Technologies Inc., Motorola, Inc., Nortel Networks Corporation, Seagate Technology, Inc., Compaq Computer Corporation, 3Com Corporation, IBM, Cisco Systems, Inc. and Sony Corporation. In 1999, international sales accounted for 51% of our total sales.

Cypress was founded in 1982 and our initial strategy was to provide innovative high-performance complementary metal-oxide silicon, referred to as CMOS, integrated circuits to niche markets that were believed to be too small to be targeted by the major established international semiconductor manufacturers. In 1992, we modified our strategy to focus on selected high-volume products, particularly memory products, which could be brought to market quickly and cost-effectively. This strategy was successful until 1996 when the average selling prices of memory products began to decline. To offset the effects of declining average selling prices and its impact on revenues from memory products, we modified our strategy by diversifying our product mix to focus on non-memory products. We have also directed our sales and marketing effort and new product development resources, more towards the data communication and telecommunication end markets. Because of the highly competitive nature of the semiconductor industry, its cyclical nature and anticipated pressure on average selling prices over the life of any particular product, our ability to successfully implement this strategy and achieve our revenue, earnings and gross margin goals will depend upon a number of factors. These factors include our ability to:

- o maintain our position in the high-performance markets;
- o increase our presence in the more competitive high-volume markets;

- o continue to successfully design and develop new products utilizing advanced semiconductor design and process technologies in a timely fashion;
- o improve manufacturing yields and reduce manufacturing costs and cycle time; and
- o effectively market and sell our products in light of significant domestic and international competition.

Cypress was incorporated in California in December 1982. The initial public offering of our common stock occurred in May 1986 at which time our common stock commenced trading on the Nasdaq National Market. In February 1987, we reincorporated in Delaware and on October 17, 1988, began listing our common stock on the New York Stock Exchange.

Products

We concentrate our efforts in two market segments, memory products and non-memory products. Our memory product segment manufactures integrated circuits on silicon wafers using leading edge process technology. A significant portion of the wafers we produce for memory products is manufactured at our technologically advanced, eight-inch wafer production facility located in Minnesota, which we refer to as Fab 4. Certain memory products are often characterized as commodities, with high unit sales volume and significant shifts in supply and demand; these factors mean a potentially greater exposure to fluctuations in average selling price and gross margin. Sales of memory products are generally driven by higher volumes and results of operations are improved through advancements in technology and attainment of lower manufacturing costs.

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In contrast, some non-memory products are manufactured utilizing less technologically advanced processes compared to memory products and are generally design or customer solution driven. A majority of the wafers we produce for non-memory products are manufactured at our six-inch fab located in Texas, which we refer to as Fab 2. In addition, we purchase wafers fabricated at smaller geometries from foundries. Unit sales volume of certain non-memory products is generally lower than memory products, but gross margin is higher. Future sales and results of operations of non-memory products are driven by the introduction of new products, design wins and improvements in technology. Because the semiconductor industry is characterized by rapid technological change, resulting in products with greater speed, densities and performance capabilities and by the continuing evolution of process technologies, our success will continue to depend upon the timely development, introduction and market acceptance of new products in the non-memory products market segment.

Please refer to our Note 11 to our annual financial statements included in this Report for detailed information about the composition of revenues from our memory and non-memory product market segments.

Memory Products

Our memory products, which include static random access memory products, primarily serve the data communications, telecommunications and personal computer markets.

Static RAM (Static Random Access Memory). Static RAMs are used for storage and retrieval of data in data communication, telecommunication, computers and other electronic systems. Common networking applications include hubs, switches, routers, test and measurement instrumentation, video and simulation. Telecom applications include cellular phones, pagers, radios, global positioning satellite systems and cellular base stations.

The static RAM market is characterized by the requirements for many different densities (number of bits per memory circuit), organizations (number of bits available to the user in a single access of the RAM) and levels of power consumption (low power and ultra-low-power devices are required for portable battery operated equipment). In addition, the market is divided into fast asynchronous, slow micro-power and synchronous segments. This differentiation of the static RAM market when combined with the different RAM features incorporated

by various manufacturers, the need for military, industrial and commercial grade products, the need for different package types, and the grading of product by speed and power, produces a complex market structure.

Non-Memory Products

Non-memory products include a variety of products that serve the data communications, telecommunications, personal computer, PC peripheral, military and consumer markets. Non-memory products include programmable logic products and programming software, programmable-skew clocking, data communication products, computer products, including clocks and universal serial bus, referred to as USB, microcontrollers and non-volatile memory products.

PLDs (Programmable Logic Devices). The logic in an electrical system performs the non-memory functions, such as floating-point mathematics or the organization and routing of signals throughout a computer system. This constitutes a significant portion of the circuitry in most systems. We manufacture several families of programmable logic circuits, which are programmable by the user. PLDs facilitate the replacement of many standard logic devices with a single device, thus reducing package count and cost, improving performance and allowing miniaturization. Our PLD portfolio consists of a wide variety of devices ranging from simple PLDs such as the Flash 22V10, to the very-high-density complex PLDs such as the Cypress Ultra37000 and Delta 39K families. All our products are supported by the Warp(TM) software tool set, which enables design description in either VHDL (very high-speed integrated circuit hardware description language), an industry standard developed by Cypress or in Verilog, another industry standard.

PROMs (Programmable Read-Only Memories). Read-only memory, referred to as ROM, is a memory in which the data is fixed even when the power is off. ROMs are used to provide start up data to computers when they are turned on. PROMs are blank ROMs that can be customized by the customer to fit specific needs. They are used in computer-peripherals, telecommunications systems and instrumentation equipment which store fixed data that is not to be altered during normal machine operations. We have been a supplier of high-performance CMOS PROMs since 1984. These early devices were the first to combine the fast memory access of PROM with the low power consumption of CMOS technology. We offer a broad family of high performance PROMs ranging in density from 4K to 256K bits, available in a variety of standard and proprietary user interfaces.

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First-in, First-out ("FIFOs"). FIFOs are used as an elasticity buffer between systems operating at different frequencies. We offer FIFO memories in a variety of high-bandwidth synchronous and asynchronous architectures with industry-standard pinouts. We have recently added 32 new x36 FIFOs to our portfolio.

Multi-port Memories. Dual-port and QuadPortTM RAMs are memories that can be accessed by two or four different processors or busses simultaneously. Multi-ports are ideal memory solutions for shared-memory and switching applications, including networking switches and routers, cellular base stations, mass storage devices, and telecommunication equipment. Our family of synchronous and asynchronous multi-port RAMs range in density from 8 Kbit to 1 Mbit in x8, x9, x16, x18, and x36 configurations. We further enhanced our leadership position in multi-ports by introducing the world's first x36 dual-port (FLEX36TM Dual-port) and the world's first high-density (1-megabit) / high-performance (10 Gbps) QuadPort RAM.

RoboClock. Our RoboClock family of high performance programmable clock buffers offer very high performance specifications (i.e. zero propagation delay and 50/50 duty cycle) and programmable features (i.e. programmable skew and multiple/divide functions) allowing customers to compensate for clock skews arising from varying circuit board trace lengths and device set-up and hold times.

HOTLink (High-speed Optical Transceiver Link). Our HOTLink serial transceivers are the industry standard products for moving serial data at rates from 50-400Mbps. These products support a variety of applications and industrial protocols including fibre channel, enterprise system connection, asynchronous transfer mode, digital video broadcast, Advanced Micro Devices, Inc.'s TAXIChip protocol, generic backplane and point-to-point applications.

WAN (Wide Area Network) Our family of high-performance SONET/SDH (Synchronous Optical Network/Synchronous Digital Hierarchy) transceivers move SONET or SDH frames between equipment at the SONET/SDH data rates of 51.85Mbps (OC-1) and 155.52Mbps (OC-3). Our recent acquisition of Arcus Technology, Inc. enhanced our expertise in PDH (Plesiochronous Digital Hierarchy) and SONET/SDH technology and E1-3 mapper products that are currently shipping for revenue.

Programmable Clocks. We are a leader in the timing technology device market primarily due to our clocks and clock distribution circuits. Clocks' frequency synthesizers integrate essentially all clock requirements of a microprocessor based system, thus reducing size, power, consumption and cost. These devices are widely used in personal computers, disk drives, modems, digital video disks, video CD players and home video games. We are the only supplier offering true field-programmable clocks, and all our clock outputs have the desired characteristics of high drive, low jitter, low EMI, and low skew.

FCTs (Fast CMOS Technology). We offer a full complement of FCTs with standard logic and bus interface functions in a variety of formats. FCT devices are used in a wide variety of applications whenever the need arises for very high-speed logic functions. FCT logic is used in almost all types of high-speed systems for data/bus management, buffering, and a variety of other simple logic functions. Our logic choices include 3.3- and 5-V products; high-drive and balance drive strengths; 8- and 16-bit organizations, and numerous package options.

USB (Universal Serial Bus). USB is a four-wire connection between a PC and its peripherals (such as keyboards, mice, printers, joysticks, scanners and modems), facilitating an easy-to-use architecture known as "plug and play." This new standard has been supported by Microsoft Corporation, Intel Corporation and other large original equipment manufacturers, referred to as OEMs. In 1997, we entered into a strategic alliance with Microsoft to produce our first USB product, an 8-bit, RISC-based microcontroller for Microsoft's new Internet mouse. In 1999 we acquired Anchor Chips, Inc. to expand our high performance USB product line. Also in 1999, we acquired the license to manufacture Intel's USB products, further expanding the USB product portfolio. We now make USB microcontrollers for a broad range of peripherals from personal computers, mice and keyboards to high performance devices such as DSL modems and digital cameras, giving us the broadest USB product portfolio in the industry.

Research and Development

We place great emphasis on research and development. This is partially reflected by our commitment of significant management resources to continuously improve process and product design development cycle time. Our current product strategy requires rapid development of new products using emerging process technologies while minimizing research and development costs. We perform research and development at two levels: research and development related to process technology is managed at the corporate level; and research and development related to new product design is managed at the operating level, in concert with our new product design organization.

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The major focus of our process technology research is the continuous migration to smaller geometries. Currently, we are in the process of transitioning from 0.25-micron to 0.16-micron fabrication technology. We began selling 0.25-micron Static RAM products during the fourth quarter of 1998.

Our wafer fabrication facility located in San Jose, which we refer to as Fab 1, is utilized for research and development programs focusing mainly on continuous migration to smaller geometries. Development programs for 0.16-micron technologies are currently in progress in Fab 1. Fab 1 also develops process enhancements to current generation technology. In fiscal 1999, we began the process of converting Fab 1 from a six-inch facility into an eight-inch facility. This conversion is expected to be completed by June 2000.

We have a central design group that focuses on new product design and improvement of design methodologies. This group has ongoing efforts to reduce design cycle time and increase first pass yield through structured re-use of IP Blocks from a controlled intellectual property library, development of computer-aided design tools and improved design business processes. We currently

have 48 design teams in place working on new product designs. Design work primarily occurs at design centers located in: Colorado Springs, Colorado; San Jose, California; San Diego, California; Woodinville, Washington; Bloomington, Minnesota; Austin, Texas; Starkville, Mississippi; Nashua, New Hampshire; Bangalore, India; Basingstoke, United Kingdom; and Cork, Ireland. In addition, we have software development teams in: Beaverton, Oregon; Lexington, Kentucky and San Jose, California

Manufacturing

In 1999, we continued to manufacture our products at three sub-micron wafer fabrication facilities located in California, Minnesota and Texas, the principal facilities being the latter two. These fabrication facilities utilize our proprietary 0.25, 0.35, 0.5, 0.65 and 0.8-micron CMOS, 0.8 and 0.5-micron BiCMOS, and 0.65-micron Flash technologies. To enhance our competitive position, we emphasized programs to reduce manufacturing cycle times, reduce die size, improve labor productivity, improve efficient use of capital resources, eliminate manufacturing steps, improve defect densities, improve yields and ultimately lower manufacturing costs. We invested \$57.4 million in 1999 to increase the capacity and capability of our primary wafer fabrication plants, Fab 2 and Fab 4. We have also continued to utilize various foundries to augment production output to respond to increasing market demand and focus on RAM and BiCMOS technologies in our own wafer fabrication plants.

A significant portion of our assembly and test operations is performed by our highly automated assembly and test facility in the Philippines, which accounted for 46% of our 1999 output, and through various offshore subcontractors. Our Philippines facility focuses its investments in high volume products and packages where our ability to significantly leverage manufacturing costs is high. The Philippines plant currently has capability for numerous types of packaging and will be developing capability for several other packages in the near future. In 1999, we invested \$17.6 million in capital to expand our Philippines' manufacturing capability with state-of-the art equipment. When fully utilized, this plant is expected to provide approximately 65% of our assembly and test manufacturing capacity.

The complicated nature of our wafer fabrication process often resulted in certain wafers being rejected or individual die on each wafer to be non-functional, adversely affecting manufacturing yields. Similar yield losses may be experienced in the assembly and test phase of manufacturing. Our philosophy is to prevent the yield loss and/or quality problems to the extent possible through analytical and statistical manufacturing controls. We test our products at various stages in the fabrication, assembly and test processes. We perform high temperature burn-in testing as well as continuous reliability monitoring on all products, and conduct numerous quality control inspections throughout the entire production flow using quality-control analytic equipment. This combination of manufacturing controls, product testing and quality control inspections is intended to reduce costs while maintaining an uninterrupted supply of product.

Marketing and Sales

We use four channels to sell our products: direct OEM sales by our sales force; direct OEM sales by manufacturing representative firms; sales through domestic distributors; and sales through international trading companies and representative firms. Our marketing and sales efforts are organized around four regions: North America, Europe, Japan and Asia/Pacific. We also have a strategic accounts group, which is responsible for specific customers with worldwide operations. We augment our sales effort with field application engineers, who are specialists in our product portfolio and work with customers to "design in" our products for their systems. Field application engineers also help us identify emerging markets and new products.

International revenues accounted for 51% of our total revenues in 1999 compared to 45% in 1998 and 39% in 1997, respectively. Please refer to Note 11 to our annual financial statements included with this Report for additional information on geographic distribution of our revenues.

We typically 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.

Backlog

Our sales are typically made pursuant to standard purchase orders for delivery of catalog products. Generally, customer relationships are not subject to long-term contracts. Products to be delivered and delivery schedules, under purchase orders outstanding from time to time, are frequently revised to reflect changes in customer needs. For these reasons, our backlog at any particular date is not representative of actual sales for any succeeding period and we believe that our backlog is not a meaningful indicator of future revenues.

Competition

We face competition from other domestic and foreign high-performance integrated circuit manufacturers, many of which have advanced technological capabilities and have increased their participation in the markets in which we operate. We compete with a large number of companies primarily in the telecommunications, data communications, personal computer, personal computer peripheral and military markets. Competitors, including Altera Corporation, Hitachi, Integrated Device Technology, Inc., Integrated Silicon Solutions, Inc., Motorola, Inc., Samsung, Texas Instruments Incorporated and Xilinx, Inc, target certain markets and compete directly with our products. Competition is based on various factors that can vary among products and markets. These factors include design and quality of the products, product performance, price and service.

The semiconductor industry is intensely competitive. This intense competition results in a difficult operating environment for most companies in the industry, including Cypress. This environment is characterized by erosion of product sale prices over the lives of each product, rapid technological change, limited product life cycles and strong domestic and foreign competition in many markets. Our ability to compete successfully in a rapidly evolving high performance end of the semiconductor technology spectrum depends on many factors, including:

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

We believe that we currently compete effectively in the above areas to the extent they are within our control, however, given the pace at which events change in the industry, our current abilities are not a guarantee of future success. If we are not able to compete successfully in this environment, our business, operating results and financial condition will be adversely affected.

Patents and Licenses

We currently have 368 patents and approximately 330 additional patent applications on file with the United States Patent and Trademark Office and are preparing to file more patent applications. In addition to factors such as innovation, technological expertise and experienced personnel, we believe that patents are becoming increasingly important to remain competitive in the industry and we have an active program to acquire additional patent and other intellectual property protection.

We have, and in the future may continue to, enter into technology license agreements with third parties that give those parties the right to use patents and other technology developed by us. Some of these agreements also give us the right to use patents and other technologies developed by such other parties, some of which involve payment of royalties.

There can be no assurance that patents owned by us will not be invalidated, circumvented or challenged, or that the rights granted thereunder will provide competitive advantage to us. We are, and may in the future be, involved in litigation with respect to alleged infringement or involved in litigation to enforce our intellectual property rights. There can also be no assurance that license agreements will continue to be available to us on commercially reasonable terms in the future.

Employees

As of January 2, 2000, we and our subsidiaries had 3,810 employees, compared to 3,030 at the end of fiscal 1998. In 1998, we laid-off 363 employees located in Fab 2 in Texas, Fab 3 in Minnesota and our test operations in Thailand in conjunction with our 1998 restructuring activity. None of our employees are represented by a collective bargaining agreement, nor have we ever experienced any work stoppages.

Risk Factors

Except for the historical information contained herein, the discussion in this 10-K report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, including, but not limited to, statements as to the future operating results and business plans, that involve risks and uncertainties. We use such words as "anticipated," "believes," "expects," "future," "intends," and similar expressions to identify forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for any reason, including the risks described below and elsewhere in this Form 10-K. If any of the following risks actually occur, our business, financial condition and operating results could be seriously harmed.

Our future operating results are unusually likely to fluctuate and therefore may fail to meet expectations.

Our operating results have varied widely in the past and may continue to fluctuate in the future. In addition, our operating results may not follow any past trends. Our future operating results will depend on many factors and may fluctuate and fail to meet our expectations or those of others for a variety of reasons, including the following:

- o the intense competitive pricing pressure to which our products are subject, which can lead to rapid and unexpected declines in average selling prices;
- o the complexity of our manufacturing processes and the sensitivity of our production costs to declines in manufacturing yields, which make yield problems both possible and costly when they occur; and
- o the need for constant, rapid, new product introductions which present an ongoing design and manufacturing challenge, which can be significantly impacted by even relatively minor errors, and which may result in products never achieving expected market demand.

As a result of these or other factors we could fail to achieve our expectations as to future revenues, gross profit and income from operations. Any downward fluctuation or failure to meet expectations will likely adversely affect the value of your investment in Cypress.

In addition, because we recognize revenues from sales to our domestic distributors only when these distributors make a sale to customers, we are highly dependent on the accuracy of their resale estimates. The occurrence of inaccurate estimates also contributes to the difficulty in predicting our quarterly revenue and results of operations.

We face periods of industry-wide semiconductor over-supply that harm our results.

The semiconductor industry has historically been characterized by wide fluctuations in the demand for, and supply of, semiconductors. These fluctuations have helped produce many occasions when supply and demand for semiconductors have not been in balance. In the past, these industry-wide fluctuations in demand, which have resulted in under-utilization of our manufacturing capacity, have harmed our operating results. In some cases, industry downturns with these characteristics have lasted more than a year. If these cycles continue, they will seriously harm our business, financial

condition and results of operations.

Our financial results could be seriously harmed if the markets in which we sell our products do not grow.

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Our continued success depends in large part on the continued growth of various electronics industries that use our semiconductors, including the following industries:

- o data communications and telecommunications equipment;
- o computers and computer related peripherals;
- o automotive electronics;
- o industrial controls; and
- o customer electronics equipment and military equipment.

A significant portion of our products is incorporated into data communications and telecommunications end-products. Any decline in the demand for networking applications, mass storage, telecommunications, cellular base stations, cellular handsets and other personal communication devices that incorporate our products could seriously harm our business, financial condition and operating results. In addition, certain of our products, including USB microcontrollers, high-frequency clocks and static RAMs, are incorporated into computer and computer-related products, which have historically experienced significant fluctuations in demand. We may also be seriously harmed by slower growth in the other markets in which we sell our products.

We are affected by a general pattern of product price decline and fluctuations, which can harm our business.

Even in the absence of an industry downturn, the average selling prices of our products have historically decreased during the products' lives, and we expect this trend to continue. In order to offset the average selling price decreases, we attempt to decrease manufacturing costs of our products, and to introduce new, higher priced products that incorporate advanced features. If these efforts are not successful or do not occur in a timely manner, or if our newly introduced products do not gain market acceptance, our business, financial condition and results of operations could be seriously harmed.

In addition to following the general pattern of decreasing average selling prices, the selling prices for certain products, particularly commodity static RAM products, fluctuate significantly with real and perceived changes in the balance of supply and demand for these products. Growth in the worldwide supply of static RAMs in recent periods resulted in a decrease in average selling prices for such products. In the event we are unable to decrease per unit manufacturing costs at a rate equal to or faster than the rate at which average selling prices continue to decline, our business, financial condition and results of operations will be seriously harmed. Furthermore, we expect our competitors to invest in new manufacturing capacity and achieve significant manufacturing yield improvements in the future. These developments could dramatically increase the worldwide supply of static RAM products and result in associated downward pressure on prices.

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

Protection of our intellectual property rights is essential to keep others from copying the innovations that are central to our existing and future products. Consequently, we may become involved in litigation to enforce our patents or other intellectual property rights, to protect our trade secrets and know-how, to determine the validity or scope of the proprietary rights of others, or to defend against claims of invalidity. This type of litigation can be expensive, regardless of whether we win or lose.

Also, we are now and may again become involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. This type of litigation is frequently expensive to both the winning

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

We have entered into technology license agreements with third parties that give those parties the right to use patents and other technology developed by us, and that give us the right to use patents and other technology developed by them. We anticipate that we will continue to enter into these kinds of licensing arrangements in the future. It is possible however, that licenses we want will not be available to us on commercially reasonable terms. If we lose existing licenses to key technology, or are unable to enter into new licenses which we deem important, our business, financial condition and results of operations could be seriously harmed.

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It is critical to our success that we be able to prevent competitors from copying our innovations, we therefore intend to continue to seek patent, trade secret and mask work protection for our semiconductor manufacturing technologies. The process of seeking patent protection can be long and expensive, and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, others may develop technologies that are similar or superior to our technology or design around the patents we own.

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

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

Like many semiconductor companies, which frequently operate in a highly competitive, quickly changing environment marked by rapid obsolescence of existing products, our future success depends on our ability to develop and introduce new products that customers choose to buy. We introduce significant numbers of product each year, which are an important source of revenue for us. If we fail to compete and introduce new product designs in a timely manner or are unable to manufacture products according to the requirements of these designs (discussed more below), or if our customers do not successfully introduce new systems or products incorporating ours, or market demand for our new products does not exist as anticipated, our business, financial condition and results of operations could be seriously harmed.

For Cypress and many other semiconductor companies, introduction of new products is a major manufacturing challenge. The new products the market requires tend to be increasingly complex, incorporating more functions and operating at faster speeds than prior products. Increasing complexity generally requires smaller features on a chip. This makes manufacturing new generations of products substantially more difficult than prior generations. Ultimately, whether we can successfully introduce these and other new products depends on our ability to develop and implement new ways of manufacturing semiconductors. If we are unable to design, develop, manufacture, market and sell new products successfully, our business, financial condition and results of operations would be seriously harmed.

Interruptions in the availability of raw materials can seriously harm our financial performance.

Our semiconductor manufacturing operations require raw materials that must meet exacting standards. We generally have more than one source available for these materials, but there are only a limited number of suppliers capable of delivering certain raw materials that meet our standards. If we need to use other companies as suppliers, they must go through a qualification process. In addition, the raw materials we need for our business could become scarcer as worldwide demand for semiconductors increases. Interruption of our sources of raw materials could seriously harm our business, financial condition and results of operations.

Problems in the performance of other companies we hire to perform certain manufacturing tasks can seriously harm our financial performance.

A high percentage of our products are assembled, packaged and tested at our manufacturing facility located in the Philippines. We rely on independent subcontractors to assemble, package and test the balance of our products. This reliance involves certain risks, because we have less control over manufacturing quality and delivery schedules, whether these companies have adequate capacity to meet our needs and whether or not they discontinue or phase-out assembly processes we require. We cannot be certain that these subcontractors will continue to assemble, package and test products for us, and it might be difficult for us to find alternatives if they do not do so.

The complex nature of our manufacturing activities makes us highly susceptible to manufacturing problems and these problems can have substantial negative impact on us when they occur.

Making semiconductors is a highly complex and precise process, requiring production in a tightly controlled, clean environment. Even very small impurities in our manufacturing materials, difficulties in the wafer fabrication process, defects in the masks used to print circuits on a wafer or other factors can cause a substantial percentage of wafers to be rejected or numerous chips on each wafer to

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be nonfunctional. We may experience problems in achieving an acceptable success rate in the manufacture of wafers, and the likelihood of facing such difficulties is higher in connection with the transition to new manufacturing methods. The interruption of wafer fabrication or the failure to achieve acceptable manufacturing yields at any of our facilities would seriously harm our business, financial condition and results of operations. We may also experience manufacturing problems in our assembly and test operations and in the introduction of new packaging materials.

We may not be able to use all of our existing or future manufacturing capacity, which can negatively impact our business.

We have spent, and expect to continue to spend, significant amounts of money to upgrade and increase our wafer fabrication, assembly and test manufacturing capability and capacity. If we do not need some of this capacity and capability for any of a variety of reasons, including inadequate demand or a significant shift in the mix of product orders that makes our existing capacity and capability inadequate or in excess of our actual needs, our fixed costs per semiconductor produced will increase, which will harm us. In addition, if the need for more advanced products requires accelerated conversion to technologies capable of manufacturing semiconductors having smaller features, or requires the use of larger wafers, we are likely to face higher operating expenses and may need to write-off capital equipment made obsolete by the technology conversion, either of which could seriously harm our business and results of operations.

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

Our headquarters and some manufacturing facilities and some of our major vendors' facilities are located near major earthquake faults. If a major earthquake or other natural disaster occurs, we could suffer damages that could seriously harm our business, financial condition and results of operations.

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

markets.

The semiconductor industry is intensely competitive. This intense competition results in a difficult operating environment for us and most other semiconductor companies that is marked by erosion of average selling prices over the lives of each product, rapid technological change, limited product life cycles and strong domestic and foreign competition in many markets. A primary cause of this highly competitive environment is the strength of our competitors. The industry consists of major domestic and international semiconductor companies, many of which have substantially greater financial, technical, marketing, distribution and other resources than we do. We face competition from other domestic and foreign high-performance integrated circuit manufacturers, many of which have advanced technological capabilities and have increased their participation in markets that are important to us. If we are unable to compete successfully in this environment, our business, operating results and financial condition will be seriously harmed.

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

- o our success in developing new products and manufacturing technologies;
- o the quality and price of our products;
- o the diversity of our product line; o the cost effectiveness of our design, development, manufacturing and marketing efforts;
- o the pace at which customers incorporate our products into their systems, and
- o the number and nature of our competitors and general economic conditions.

Although we believe we currently compete effectively in the above areas to the extent they are within our control, given the pace of change in the industry, our current abilities are not a guarantee of future success.

We must build semiconductors based on our forecasts of demand, and if our forecasts are inaccurate, we may have large amounts of unsold products or we may not be able to fill all orders.

We order materials and build semiconductors based primarily on our internal forecasts, and secondarily on existing orders, which may be cancelled under many circumstances. Consequently, we depend on our forecasts to determine inventory levels for our products and the amount of manufacturing capacity that we need. Because our markets are volatile and subject to rapid technological and price changes, our forecasts may be wrong, and we may make too many or too few of certain products or have too much or too little manufacturing capacity. Also, our customers frequently place orders requesting product delivery almost immediately after the order is

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made, which makes forecasting customer demand even more difficult. The above factors also make it difficult to forecast quarterly operating results. If we are unable to predict accurately the appropriate amount of product required to meet customer demand, our business, financial condition and results of operations could be seriously harmed.

We must spend heavily on equipment to stay competitive, and will be adversely impacted if we are unable to secure financing for such investments.

In order to remain competitive semiconductor manufacturers generally must spend heavily on equipment to maintain or increase manufacturing capacity and capability. We have budgeted for approximately \$250.0 million in expenditures on equipment in 2000 and anticipate significant continuing capital expenditures in subsequent years. In the past, we have reinvested a substantial portion of our cash flow from operations in capacity expansion and improvement programs. However, our cash flows from operations depend primarily on average selling prices, which generally decline over time, and on the per-unit cost of our products.

If we are unable to decrease costs for our products at a rate at least as fast as the rate of the decline in selling prices for such products, we may not be able to generate enough cash flow from operations to maintain or increase manufacturing capability and capacity as necessary. In such a situation we would need to seek financing from external sources to satisfy our needs for manufacturing equipment and, if cash flow from operations declines too much, for operational cash needs as well. Such financing, however, may not be available on terms which are satisfactory to us or at all, in which case our business, financial condition and results of operations will be seriously harmed.

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

To a greater degree than most non-technology companies, we depend on the efforts and abilities of certain key management and technical personnel. Our future success depends, in part, upon our ability to retain such personnel, and to attract and retain other highly qualified personnel, particularly product and process engineers. We compete for these individuals with other companies, academic institutions, government entities and other organizations. Competition for such personnel is intense and we may not be successful in hiring or retaining new or existing qualified personnel. If we lose existing qualified personnel or are unable to hire new qualified personnel as needed, our business, financial condition and results of operations could be seriously harmed.

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

International sales represented approximately 51% of our revenues during fiscal 1999 and approximately 45% of our revenues during fiscal 1998. Our offshore assembly and test operations, as well as our international sales, face risks frequently associated with foreign operations, including:

- o currency exchange fluctuations,
- o political instability,
- o changes in local economic conditions,
- o the devaluation of local currencies,
- o import and export controls, and
- o changes in tax laws, tariffs and freight rates.

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

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

We are subject to many different governmental regulations related to the storage, use, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in our manufacturing process. Compliance with these regulations can be costly. In addition, over the last several years, the public has paid a great deal of attention to the potentially negative environmental impact of semiconductor manufacturing operations. This attention and other factors may lead to changes in environmental regulations that could force us to purchase additional equipment or comply with other potentially costly requirements. If we fail to control the use of, or to adequately restrict the discharge of, hazardous substances under present or future regulations, we could face substantial liability or suspension of our manufacturing operations, which could seriously harm our business, financial condition and results of operations.

We depend on third parties to transport our products and could be harmed if these parties experience problems.

We rely on independent carriers and freight haulers to move our products between manufacturing plants and our customers. We have limited control over these parties; however, any transport or delivery problems because of their errors, or because of unforeseen interruptions in their activities due to

factors such as strikes, political instability, natural disasters and accidents, could seriously harm our business, financial condition and results of operations and ultimately impact our relationship with our customers.

We may fail to integrate our business and technologies with those of companies that we have recently acquired and that we may acquire in the future.

We completed four acquisitions in calendar 1999, recently announced the pending acquisition of Galvantech, Inc. and may pursue additional acquisitions in the future. If we fail to successfully or properly integrate these businesses, our quarterly and annual results may be seriously harmed. Integrating additional businesses, products and services could be expensive, time-consuming and a strain on our resources. Specific issues that we face with regard to prior and future acquisitions include:

- o the difficulty of integrating acquired technology or products;
- o the difficulty of assimilating the personnel of the acquired companies;
- o the difficulty of coordinating and integrating geographically dispersed operations;
- o our ability to retain customers of the acquired company;
- o the potential disruption of our on-going business and distraction of management;
- o the maintenance of brand recognition of acquired businesses;
- o the failure to successfully develop acquired in-process technology, resulting in the impairment of amounts currently capitalized as intangible assets;
- o unanticipated expenses related to technology integration;
- o the maintenance of uniform standards, corporate cultures, controls, procedures and policies;
- o the impairment of relationships with employees and customers as a result of any integration of new management personnel; and
- o the potential unknown liabilities associated with acquired businesses.

We face a number of unknown risks associated with year 2000 problems.

The year 2000 computer issue creates a variety of risks for us. The year 2000 computer problem refers to the potential for system and processing failures of date-related data as a result of computer-controlled systems using two digits rather than four to define the applicable year. For example, computer programs that have time-sensitive software may recognize a date represented as "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including among other things, interruptions in manufacturing, design and process development operations, disruptions in processing business transactions, and disruptions in other normal business activities. Issues related to the year 2000 computer problem could still arise. The risks involve:

- o potential warranty or other claims by customers with respect to errors in our products;
- o errors in systems we use to run our business;
- o errors in systems used by our suppliers;
- o errors in systems used by customers; and

- o potential reduced spending by customers as a result of concerns about potential year 2000 problems.

We have designed most of our products to be year 2000 compliant and have

developed corrective measures for other products that were not originally designed to be year 2000 compliant. However, our products may be integrated into or used in conjunction with products supplied by other vendors. We cannot evaluate whether all of the products of other vendors are year 2000 compliant. We may face claims based on year 2000 problems in other companies' products or based on issues arising from the integration or use of multiple products. We may in the future be required to defend our products in legal proceedings which could be expensive regardless of the merits of these claims.

If our suppliers, vendors, partners, customers and service providers fail to correct their year 2000 problems, these failures could result in an interruption in, or a failure of, our normal business activities or operations. If a year 2000 problem occurs, it may be difficult to determine which party's products have caused the problem. These failures could interrupt our operations and damage our relationships with customers. Due to the general uncertainty inherent in the year 2000 problem resulting from the readiness of third-party suppliers and vendors, we are unable to determine at this time whether third-party year 2000 failures could harm our business, results of operations and financial condition.

EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information regarding each of Cypress's current executive officers is set forth below:

Name	Age	Position	Executive Officer Since
T. J. Rodgers	52	President and Chief Executive Officer	1982
Antonio R. Alvarez	43	Executive Vice President, Memory Products Division and Research and Development	1993
Emmanuel Hernandez	44	Executive Vice President, Finance and Administration, Chief Financial Officer	1993
J. Daniel McCranie	56	Executive Vice President, Marketing and Sales	1993

Except as set forth below, each of Cypress's executive officers has been engaged in his principal occupation described above during the past five years. There is no family relationship between any director or executive officer of Cypress.

T.J. Rodgers is a co-founder of Cypress Semiconductor Corporation and has been its president and chief executive officer since 1982. Mr. Rodgers serves as a director of C-Cube Corporation.

Antonio R. Alvarez joined Cypress in May 1987 as a senior technical engineer. Mr. Alvarez was transferred to Cypress's former subsidiary, Aspen Semiconductor Corporation, in April 1988 as the manager of BiCMOS technology. In October 1989, Mr. Alvarez returned to the corporate office as Vice President, Research and Development. In February 1993, Mr. Alvarez also became responsible for Fab I when it was merged with the research and development department. Prior to joining Cypress in 1987, Mr. Alvarez worked in various engineering and management positions at Motorola Corporation from September 1979 through July 1987. His last position at Motorola was as a senior member of the technical staff.

Emmanuel Hernandez joined Cypress in June 1993 as Corporate Controller. In January 1994, Mr. Hernandez was promoted to Vice President, Finance and Administration, and Chief Financial Officer. Prior to joining Cypress, Mr. Hernandez held various financial positions with National Semiconductor Corporation from 1976 through 1993.

J. Daniel McCranie joined Cypress in October 1993 as Vice President of Marketing and Sales. Prior to joining Cypress, Mr. McCranie was President and CEO of SEEQ Technology from 1989 through 1993. Mr. McCranie also held the position of Vice President of Sales and Marketing for SEEQ for five years prior to becoming President and CEO. Previously, he held marketing and sales positions at Harris Semiconductor, AMD, American Microsystems and Signetics.

ITEM 2. PROPERTIES

Our executive offices, engineering and research and development facilities are located in an approximately 60,000 square-foot building at 195 Champion Court, San Jose, California, under a lease that will expire in 2004. Located immediately adjacent to our executive offices is one of our wafer fabrication facilities (Fab 1), which is primarily utilized for R & D operations. This facility is located in an approximately 61,000 square-foot leased building at 3901 North First Street, San Jose, California. The current lease expires in 2004. The lease rates for these facilities are subject to variations based on the London interbank offering rate (LIBOR) and a requirement to sell, extend the lease, or acquire the property at the end of the lease term (see Note 9 of the Consolidated Financial Statements).

Research and development and other Cypress staff functions also are located at the San Jose building complex. This office space is composed of approximately 75,000 square feet in a building located at 4001 North First Street, San Jose, California under a lease which expires in 2001. In addition, we have leased 75,000 square feet of additional office space at 3939 North First Street, San Jose, California. This building was occupied in 1997 and is currently leased until 2001. As described above, the lease rates for these facilities are subject to variations based on LIBOR and we are required to sell, extend the lease or acquire the property at the end of the lease term.

We also have a 36,000 square feet office facility located at 101 Nicholson Lane, San Jose, California under a lease that expires in 2003. We have the option to extend the lease for three additional years after the original lease term expires. The lease rate increases 3% to 4% each year over the life of the lease.

In December 1988, we purchased the two undeveloped industrial lots on either side of our headquarters building. These similarly sized lots, comprising a total of approximately 8.5 acres, will be retained for future expansion of the San Jose building complex. In the third quarter of 1996, we began operations in a new 162,000-square foot highly automated assembly and test manufacturing plant in Cavite, the Philippines. We own an approximately 100,000 square foot wafer fabrication facility, referred to as Fab 2 in Round Rock, Texas. In addition, we also own an approximately 170,000 square foot wafer fabrication facility, referred to as Fab 3, and we lease an approximately 100,000 square foot wafer fabrication facility, referred to as Fab 4 on 18 acres of land in Bloomington, Minnesota. The Fab 4 lease rate is subject to variations based on LIBOR and a requirement to sell, extend the lease, or acquire the property at the end of the lease term in December 2004 (see Note 9 of the Consolidated Financial Statements).

In November 1997, we purchased real estate comprised of approximately 3.5 acres of land and 58,000-square feet of building in Woodinville, Washington. The property is the new primary location of our interface products organization, previously located in a leased facility in Kirkland, WA.

We lease additional space for domestic sales and design centers in Huntsville, Alabama; Irvine, San Diego, San Jose, and Woodland Hills, California; Denver and Colorado Springs, Colorado; Clearwater, Altamonte Springs, and Pompano Beach, Florida; Roswell, Georgia; Palatine, Illinois; Lexington, Kentucky; Columbia, Maryland; Minnetonka, Minnesota; Starkville, Mississippi; Nashua, New Hampshire; Laurence Harbor and Ridgewood, New Jersey; Northport and Oyster Bay, New York; Raleigh, North Carolina; Beaverton, Oregon; Elkins Park and Trevose, Pennsylvania; and Austin, Houston and Richardson, Texas. We lease international sales, representative and design centers in Antwerp and Waterloo, Belgium; Toronto, Ontario, Canada; Le Ulis Cedex, France; Cork, Ireland; Milan and Orbassano, Italy; Tokyo and Osaka, Japan; Taby, Sweden; Cheshire, Basingstoke and Hertfordshire, United Kingdom; Zorneding, Germany; Singapore; Taipei, Taiwan; Seoul, Korea; Hong Kong and Shanghai, China; Lehdokkitie, Finland and Bangalore, India.

As of the end of fiscal year 1999, current properties are suitable for immediate needs. There are no plans to re-locate or expand current facilities at this time. Two undeveloped industrial lots at our headquarters are available for future expansion.

ITEM 3. LEGAL PROCEEDINGS:

The semiconductor industry has experienced a substantial amount of

litigation regarding patent and other intellectual property rights. From time to time, we have received, and may receive in the future, communications alleging that our products or our processes may infringe on product or process technology rights held by others. We are currently, and may in the future be, involved in litigation with respect to alleged infringement by us of another party's patents. In the future, we may be involved with litigation to:

- o enforce our patents or other intellectual property rights;
- o protect our trade secrets and know-how;

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- o determine the validity or scope of the proprietary rights of others; and
- o defend against claims of infringement or invalidity.

Such litigation has in the past and could in the future result in substantial costs and diversion of management resources. Such litigation could also result in payment of substantial damages and/or royalties or prohibitions against utilization of essential technologies, and could have a material adverse effect on our business, financial condition and results of operations.

During 1998, EMI Group of North America, Inc. filed suit against us in the Federal Court in Delaware, claiming that we infringed on four patents owned by EMI. Cypress and EMI entered into a license agreement in February 1999, for one of the four patents in the lawsuit. EMI withdrew two of the four patents from the lawsuit, including the patent related to the licensing agreement. The case involving the two remaining patents went to trial in October 1999. The jury ruled in favor of us claiming that none of the patent claims was infringed by us and that each asserted claim was invalid due to prior art and physical impossibility (i.e., the patents require a step that is physically impossible to perform). EMI may file an appeal, although no such appeal has been filed as of March 9, 2000. Should EMI appeal the decision of the Federal Court, we intend to defend ourselves vigorously. However, should the outcome of this action be unfavorable, our business, financial condition and results of operations could be materially and adversely affected.

In January 1998, an attorney representing the estate of Mr. Jerome Lemelson contacted us and charged that we infringed certain patents owned by Mr. Lemelson. On February 26, 1999, the Lemelson attorneys sued us and 87 other companies for infringement of 16 patents. We have reviewed and investigated the allegations in the complaint and we believe that the suits are without merit. We will vigorously defend ourselves in this matter. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matter will not have a material effect on our consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, we may be required to pay damages and other expenses, which could have a material adverse effect on our financial position and results of operations.

In June 1997, we commenced a declaratory judgment action in the United States District Court for the District of Nevada against the Li Second Family Trust. In this action, we asked for declaratory relief to the effect that a U.S. patent relating to a part of the process for manufacturing semiconductors is unenforceable, invalid and not infringed by us. The Trust has counter-claimed for patent infringement on the same patent, alleging such patent covers oxide-isolated integrated circuits. In May 1999, in a related case, the United States District Court for the Eastern District of Virginia ruled that the patent is unenforceable due to inequitable conduct by Dr. Li and his attorneys in obtaining the patent. We believe that we have meritorious defenses to the counter-claim and intends to defend ourselves vigorously. While no assurance can be given regarding the outcome of this action, we believe that the final outcome of the matters will not have a material effect on our consolidated financial position or results of operations. However, should the outcome of this action be unfavorable, our business, financial condition and results of operations could be materially and adversely affected.

On October 2, 1997, we filed an action against Kevin Yourman, Joseph Weiss, and their associated law offices in the Superior Court of California ("Superior Court") in Santa Clara County for malicious civil prosecution in the underlying securities fraud actions initiated by Messrs. Yourman and Weiss in 1992. The

underlying securities fraud actions were dismissed because the court found that none of our officers made any actionable false or misleading statements or omissions. An appeal affirmed the lower court's finding that Messrs. Yourman and Weiss failed to put forth evidence showing a genuine issue of fact with regard to any statements by our officers. On May 4, 1999, the Superior Court granted a summary judgment motion by Messrs. Yourman and Weiss, holding that Messrs. Yourman and Weiss had probable cause to bring the underlying litigation. We are appealing the decision. Even though, the results of litigation are unpredictable, we believe that this action, regardless of its outcome, will have little, if any, effect on our consolidated financial position or results of operations.

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

No matters were submitted to a vote of the security holders during the quarter ended January 2, 2000.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Our Common Stock is listed on the New York Stock Exchange under the trading symbol "CY". The following table sets forth, for the periods indicated, the low, high and closing price for the common stock. We have not paid cash dividends and have no present plans to do so. At January 2, 2000 there were approximately 42,000 holders of record of our Common Stock.

	PRICE RANGE OF COMMON STOCK (\$)		
	LOW ---	HIGH ----	CLOSE -----
Fiscal Year ended January 2, 2000:			
First Quarter	7.38	10.38	9.31
Second Quarter	9.31	18.31	18.00
Third Quarter	17.06	28.94	23.38
Fourth Quarter	21.31	33.50	32.38
Fiscal Year ended January 3, 1999:			
First Quarter	8.06	11.00	10.00
Second Quarter	7.38	10.69	8.25
Third Quarter	5.50	9.31	9.06
Fourth Quarter	8.00	12.00	8.31

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

	Year ended(1)				
	1999 ----	1998 ----	1997 ----	1996 ----	1995 ----
(Dollars in thousands, except per share amounts)					
Operating results:					
Revenues	\$ 705,487	\$ 554,891	\$ 598,485	\$ 569,941	\$ 636,108
Restructuring and other non-recurring costs	33,812	60,737	9,882	10,932	17,800
Operating Income (loss)	52,823	(120,521)	8,508	54,110	162,966
Income (loss) before tax	95,871	(118,441)	13,139	55,584	164,201
Net income (loss)	91,054	(104,918)	7,526	25,108	104,995
Net income (loss) per share					
Basic	\$ 0.87	\$ (1.03)	\$ 0.08	\$ 0.28	\$ 1.18
Diluted	\$ 0.81	\$ (1.03)	\$ 0.07	\$ 0.26	\$ 1.02
Weighted average common and common equivalent shares outstanding					
Basic	104,703	101,944	100,137	90,247	89,321
Diluted	111,735	101,944	107,866	95,555	106,253
Balance sheet data:					

Cash and short-term investments ..	\$ 270,556	\$ 160,561	\$ 203,870	\$ 95,699	\$ 165,363
Working capital	344,630	236,081	309,661	125,746	195,131
Total assets	1,117,224	823,996	978,466	834,931	791,491
Long term debt and capital lease obligations (excluding current portion)	226,484	211,305	224,412	135,266	123,171
Stockholders' equity	697,975	498,723	644,632	512,116	492,394

(1) We operate on a 52- or 53-week fiscal year. Fiscal year 1999 was a 52-week fiscal year ending on the Sunday closest to December 31. 1998 was a 53-week fiscal year ending on the Sunday closest to December 31. Fiscal year 1997 was a 52-week fiscal year ending on the Monday closest to December 31.

ITEM 7. Management's Discussion and Analysis of Operations and Financial Condition

This report may contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, about the prospects for Cypress as well as the semiconductor industry more generally, including without limitation, statements about increases in gross margin, rate of growth of research and development expenditures as a percent of revenues, rate of growth of selling, general and administrative expenses, profitability goals, revenue goals, growth rate goals, market share goals, market size and growth projections, new product introductions, planned manufacturing capacity, and efficiency and cost goals. Actual results could differ materially from those described in the forward-looking statements as a result of various factors including, but not limited to, the factors identified in the Letter to Shareholders and the Management's Discussion and Analysis section, particularly "Factors Affecting Future Results," as well as the following:

- (1) increased competition which could result in lost sales or price erosion;
- (2) changes in product demand by the electronics and semiconductor industries, which are noted for rapidly changing needs, coupled with an inability by Cypress to generate product enhancements or new product introductions which keep pace with or meet those rapidly changing needs;
- (3) failure by Cypress to develop or introduce successfully new products in areas of expected new or increased demand, or development and introduction of superior new products serving those areas by others;
- (4) failure of expected growth in demand for, or areas of expected new demand for, semiconductor products to materialize;
- (5) failure to successfully bring on line and utilize additional manufacturing capacity, or to transition existing capacity to new uses;
- (6) inability to develop and/or adopt more advanced manufacturing technology;
- (7) inability of Cypress's patents or other proprietary rights to ensure adequate protection against encroachment on Cypress's technology by competitors; and
- (8) failure to attract and/or retain key personnel.

Overview

Revenues for Cypress increased 27.1% to \$705.5 million in fiscal 1999 from \$554.9 million in fiscal 1998. Net income for fiscal 1999 was \$91.1 million compared to a net loss of \$104.9 million in fiscal 1998. The net loss for fiscal 1998 included a restructuring charge of \$60.7 million and other non-recurring charges totaling \$27.3 million. Excluding the restructuring and non-recurring charges, the net loss for fiscal 1998 was \$26.9 million. Cypress earned \$0.81 per share, on a diluted basis, during fiscal 1999 compared to a diluted net loss

of \$1.03 per share in fiscal 1998.

On March 2, 2000, Cypress completed the merger with Galvantech, Inc. ("Galvantech"), which will be accounted for as a pooling of interests. The agreement provides for Cypress to issue up to 3.6 million shares in exchange for all outstanding stock and options of Galvantech. The fiscal years of Cypress and Galvantech were different and Galvantech has changed its fiscal periods to coincide with that of Cypress. Galvantech specializes in niche, ultra-high performance memories for data communications applications.

On January 31, 2000, Cypress filed a universal shelf registration statement with the Securities and Exchange Commission. The registration statement which was effective February 8, 2000 will allow Cypress to market and sell up to \$400.0 million of its securities. The shelf registration statement allows Cypress flexibility to raise funds from the offering of debt securities, common stock, or a combination thereof, subject to market conditions and Cypress's capital needs.

On January 19, 2000, Cypress completed a \$283.0 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 4.00% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress no earlier than February 5, 2003. Net proceeds were \$275.2 million, after issuance costs of \$7.8 million.

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On October 5, 1999, Cypress announced that it has signed a definitive agreement with Altera Corporation ("Altera") to acquire Altera's MAX 5000 Programmable Logic Device ("PLD") product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas ("Fab II") for approximately \$13.0 million in cash. The acquisition has been accounted for as a purchase. In 1988, Altera licensed its MAX 5000 family of products to Cypress in consideration of manufacturing capacity. Altera later acquired a 17% equity interest in the Round Rock wafer fabrication facility. By acquiring Altera's equity interest in October 1999, Fab II is now 100% owned by Cypress.

On June 30, 1999, Cypress acquired all of the outstanding capital stock of Arcus Technology (USA), Inc. and the assets of Arcus Technology (India) Limited (referred to collectively as "Arcus"). Arcus specializes in new data communications arenas including dense wave multiplexing (which allows multiple signals to be transmitted over a single fiber optic cable) and "IP over SONET" (the technology needed to code and decode Internet traffic to send it over the telephone system). The acquisition was accounted for as a purchase and the estimated fair value of assets acquired and liabilities assumed were included in Cypress's consolidated balance sheet as of June 30, 1999, the effective date of the purchase. The results of operations were included from the date of purchase. Cypress acquired Arcus for \$17.7 million, including cash of \$11.5 million and stock of \$6.2 million, excluding direct acquisition costs of \$0.8 million for legal and accounting fees.

On May 25, 1999, Cypress acquired all of the outstanding capital stock of Anchor Chips, Inc. ("Anchor"), a company that designs and markets microcontroller chips to support the Universal Serial Bus. The acquisition was accounted for as a purchase and the estimated fair value of assets acquired and liabilities assumed were included in Cypress's consolidated financial statements as of May 25, 1999, the effective date of the purchase. The results of operations were included from the date of purchase. Cypress paid approximately \$15.0 million in cash excluding direct acquisition costs of \$0.7 million for investment banking, legal and accounting fees.

On April 1, 1999, Cypress completed a merger with IC WORKS Incorporated ("ICW"), which was accounted for as a pooling of interests. The consolidated financial statements and the notes to the consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and ICW were different. ICW has changed its fiscal year-end to coincide with that of Cypress. Cypress's consolidated statements of operations for the periods ended January 3, 1999 and December 27, 1997, have been combined with ICW's consolidated statements of operations for the corresponding twelve month periods ended December 28, 1998 and March 28, 1998. During fiscal 1999, Cypress recorded merger-related transaction costs of \$3.7 million related to the acquisition of ICW. These charges, which consist primarily of investment banking and other

professional fees, have been included under acquisition and merger costs in the Consolidated Statements of Operations.

Results of Operations

Revenues

Revenues for fiscal 1999 were \$705.5 million, an increase of \$150.6 million or 27.1% versus revenues for fiscal 1998, and an increase of \$107.0 million or 17.9% compared to revenues for fiscal 1997. Cypress derives its revenues from the sale of Memory Products and Non-memory Products, primarily targeted to the data communications and computation markets.

Revenues from the sale of Memory Products for 1999 increased \$73.8 million or 37.6% over revenues from the sale of these products for fiscal 1998 and increased \$43.1 million, or 19.0% compared to fiscal 1997. From fiscal 1998 to fiscal 1999, sales of Static Random Access Memories products ("SRAM") grew \$74.9 million or 40.3%. Revenues from SRAMs during fiscal 1999 increased \$52.3 million or 25.1% compared to fiscal 1997. The increase in Memory Product revenues, as compared to fiscal 1998, resulted from both higher average selling prices ("ASPs") and an increase in unit sales. ASPs grew 16.7% from fiscal 1998 to fiscal 1999 and unit sales increased 17.9% over the same period. The increase in unit sales in fiscal 1999 can be attributed to new product revenues, particularly in the 4meg synchronous, the No Bus Latency ("NoBL"), the 2 meg More Battery Life ("MoBL") and the 1 meg x16 micropower family of products. The synchronous and NoBL demand was driven by the surge in the networking market, while sales for MoBL and micropower were driven by the cellular phone market. Unit sales volume of Memory Products increased 16.2% comparing fiscal 1999 to fiscal 1997, while ASPs remained relatively constant.

Non-memory Products include programmable logic products, data communication devices, computer products and non-volatile memory products. Non-memory products also include foundry revenues. Foundry revenue represents sales of wafers to customers. Revenues from the sale of Non-memory Products increased \$76.8 million or 21.4% comparing fiscal 1999 to fiscal 1998 and \$63.9

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million, or 17.2% compared to fiscal 1997. The increase in revenues related primarily to the sale of computer products, which include programmable clock products and universal serial bus ("USB") products, and from the sale of data communication devices.

In fiscal 1999, revenues from the sale of computer products increased \$54.7 million, or 36.9% and \$86.5 million, or 74.2%, respectively, compared to fiscal 1998 and fiscal 1997, respectively. The revenue growth in programmable clocks can be attributed to higher unit sales, primarily as a result of the introduction of the BX clock chip in 1999 and greater acceptance of other clock products. Also in fiscal 1999, revenues for USB products grew, in comparison to fiscal 1998 and 1997, primarily as a result of an increase in the adoption rate of USB products in the market place, particularly in the personal computer market. USB revenues in fiscal 1999 also benefited from the acquisition of Anchor in May 1999. ASPs remained relatively stable comparing fiscal 1999 to fiscal 1998.

Revenues generated from the sale of data communication devices in fiscal 1999, increased \$22.7 million or 18.3% compared to fiscal 1998 and \$20.0 million, or 15.8% compared to fiscal 1997. The revenue growth in fiscal 1999 was the result of higher unit sales as units sold in fiscal 1999 increased 20.0% and 18.9% compared to fiscal 1998 and fiscal 1997, respectively. Data communication's revenue growth can be attributed to their ability to align themselves with several key customers in the Storage Area Network, Local Area Network and Wide Area Network markets. Contributions were primarily from the 1 Megabit Dual Port Ram, HotLink Transceivers and RoboClock Skew Clock Buffer family of products. The increase in unit sales more than offset the minimal decline in ASPs, comparing the same periods.

Revenues from the sale of programmable logic products in fiscal year 1999, increased \$3.3 million or 7.9% compared to fiscal 1998, however, decreasing \$14.7 million or 24.8% compared to fiscal 1997. In fiscal 1999, revenues increased, compared to fiscal 1998, due to the ramp up of sales in the 37K and FLASH family of products. The revenue growth in the 37K and FLASH family of

products more than offset declining sales in the more mature MAX and Small PLD family of products. Non-volatile memory product revenues remained relatively constant in fiscal 1999 decreasing \$0.8 million compared to fiscal 1998. In 1997, Cypress decided to cease selling certain non-volatile memory devices, Erasable Programmable Read-only Memory ("EPROM"). As a result, the sale of non-volatile memory products decreased \$13.1 million or 31.7% from fiscal 1999 to fiscal 1997.

As is typical in the semiconductor industry, ASPs of products generally decline over the lifetime of the products. To increase revenues, Cypress seeks to expand its market share in the markets it currently serves and to introduce and sell new products with higher ASPs. Cypress will seek to remain competitive with respect to its pricing to prevent a further decline in sales.

Cost of Revenues

Cost of revenues for fiscal 1999 were 54.4% of revenues, compared to 73.7% of revenues for fiscal 1998 and 65.8% of revenues during fiscal 1997. The decrease in cost of revenues as a percent of revenues was primarily due to a significant increase in unit sales, resulting in lower fixed cost per unit sold and the introduction of new products with higher margins. In order to offset the decrease in ASPs, Cypress must continue to find ways to lower manufacturing costs and introduce new products with higher margins in order to remain competitive in the marketplace.

Cost of revenues for fiscal 1998 included one-time non-recurring charges totaling \$21.7 million. These charges included \$15.8 million related to the write-down of inventory, \$3.8 million for the write-off of pre-operating costs and \$2.1 million for the write-off of certain equipment. The \$15.8 million charge for incremental inventory reserves arose due to market conditions resulting in the ongoing, over-supply and continued inventory corrections by end-user customers.

The write-off of pre-operating costs included \$2.9 million related to Cypress's wafer fabrication operation in Bloomington, Minnesota and \$0.9 million related to its assembly and test operations in the Philippines. As a result of the restructuring activities, Cypress wrote off its previously capitalized pre-operating costs as an impaired asset due to uncertainties surrounding their future economic benefits. The pre-operating costs totaling \$3.8 million, net of accumulated amortization were included in other assets at December 29, 1997.

The write-off of equipment was related to equipment identified as obsolete during Cypress's periodic review of equipment and no longer considered usable. Excluding these one-time non-recurring charges, cost of revenues as a percent of revenues for fiscal 1998 would have been 69.8%.

Cypress continues to introduce new products and new methods of reducing manufacturing costs in order to mitigate the effects of declining ASPs on its gross margin. In March 1998, Cypress announced restructuring activities for its domestic wafer fabrication facilities and offshore back-end manufacturing operations. Activities completed to date have increased Cypress's manufacturing

efficiencies and as a result, its gross margin has been increasing since the first quarter of fiscal 1998. Cypress expects to benefit from these restructuring activities in the future.

Research and Development

Research and development ("R&D") expenditures for fiscal 1999 were \$129.3 million or 18.3% of revenues, compared with \$114.6 million or 20.6% of revenues for fiscal 1998 and \$104.3 million or 17.4% of revenues for fiscal 1997. R&D expenditures in fiscal 1999 increased \$14.8 million or 12.9% compared to fiscal 1998 and \$25.0 million or 24.0% compared to fiscal 1997. R&D expenditures increased from fiscal 1997 through fiscal 1999 as Cypress continued its effort to accelerate the development of new products and migrate to more advanced process technologies. In 1999, spending in Cypress's design centers grew due to increased headcount and additional spending from design centers acquired with the purchase of Arcus and Anchor. During 1998, Cypress began utilizing the 0.25 micron process technology for manufacturing purposes, and in 1999, started development of 0.16 micron process technologies. Cypress believes that its

future success will depend on its ability to develop and introduce new products that will compete effectively on the basis of price and performance, and will address customer needs. In fiscal 2000, Cypress is expecting to continue to increase spending in R&D in order to improve its design and process technologies in an effort to increase revenues and reduce costs. As part of this effort, in fiscal 2000, Cypress expects to complete the conversion its San Jose R&D wafer fab from a six-inch facility into an eight-inch facility. This will make Cypress's R&D fab more compatible with its technologically advanced wafer fabs in Minnesota. This conversion is expected to be completed in June 2000.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for fiscal 1999 were \$105.9 million or 15.0% of revenues, compared to \$91.0 million or 16.4% of revenues for fiscal 1998 and \$82.0 million or 13.7% of revenues for fiscal 1997. SG&A expenses for fiscal 1999 increased by \$14.9 million or 16.3% as compared to fiscal 1998 and by \$23.9 million or 29.1% when compared to fiscal 1997. SG&A spending increased in from fiscal 1997 to fiscal 1998 and from fiscal 1998 to fiscal 1999 principally because of higher sales and marketing expenditures related to salesmen and rep commissions, a new sales force training program and higher marketing communication expenditures. In fiscal 1999, Cypress also incurred higher legal costs, primarily associated with its successful defense of the EMI patent infringement lawsuit. With the exception of variable spending, such as incentive bonuses, salary adjustments and commissions, Cypress expects to keep SG&A spending as a percent of revenues relatively constant in fiscal 2000.

1999 Restructuring, Merger and Acquisition, and Other Non-Recurring Costs

During fiscal 1999, Cypress recorded a net \$33.8 million in restructuring, merger and acquisition, and other non-recurring costs. These one-time, non-recurring costs included a \$12.3 million write-off of a certain manufacturing asset that will not be utilized and an \$11.9 million one-time compensation charge. In the first quarter of fiscal 1999, Cypress recorded one-time charges of \$3.7 million associated with the merger with IC Works. These charges were for investment banking fees and other professional fees. Cypress also recorded \$8.8 million in costs associated with the purchase of Anchor and Arcus comprising of \$4.0 million for in-process technology, \$1.6 million for transaction costs and \$3.2 million in amortization of intangible assets. During the fourth quarter of fiscal 1999, Cypress acquired Altera's MAX 5000 Programmable Logic Device ("PLD") product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas. As part of the transaction, Cypress recorded intangible assets associated with the product rights and incurred \$0.3 million for the amortization of these intangibles. These non-recurring charges were offset by a reversal of \$3.1 million of the 1998 restructuring reserve. The reversed charges related to \$2.2 million of severance and other employee related charges and \$0.3 million for the provision for phase-down and completion of the Alphatec restructuring activities. Cypress also reversed \$0.5 million of the 1998 restructuring reserve for other fixed asset related charges that were no longer considered necessary. During fiscal 1999, Cypress reversed \$0.7 million of the 1996 restructuring reserve related to fixed asset de-installation charges that were no longer required.

1998 Restructuring and Other Non-Recurring Costs

During 1998, Cypress implemented an overall cost reduction plan and recorded a \$58.9 million restructuring reserve. The restructuring entailed:

- o The shutdown of Fab 3, located in Bloomington, Minnesota and consolidation of parts of Fab 3 operations with other operations of Cypress.

- o The discontinuance of the 0.6 micron 256k SRAM production in Fab 2 located in Texas.
- o The conversion of an existing research and development fab located in San Jose (Fab 1) to eight-inch capability in order to be compatible with the state of the art eight-inch Minnesota manufacturing facility.
- o The transfer of Cypress's test operations from its subcontractor,

Alphatec, in Thailand to Cypress's production facility in the Philippines.

- o The restructuring activities described above include the termination of approximately 850 manufacturing employees primarily from Cypress and Alphatec.

FAB 3 -- The charge related to the shutdown of Fab 3 was \$30.2 million. Of this amount, \$26.0 million related to the write-down of equipment held for sale, \$1.7 million of other fixed asset related charges for incremental third party costs expected to be incurred in the eventual physical removal of the written down assets, \$1.1 million related to severance and other employee related costs and \$1.4 million related to inventory.

Fab 3 assets, which were not upgradable to 8-inch capability, were written down based on the estimated useful lives of the assets and the salvage value of the assets. The estimated useful lives were generally two months as a result of the decision to discontinue production in Fab 3 and the salvage value was determined based on the estimated sales value of used semiconductor equipment. Non-upgradable Fab 3 assets were depreciated down to their salvage value during the production phase-down period. Fab 3 assets, which were upgradable to 8-inch capability, were transferred to Fab 4 production during the third quarter of 1998.

In accordance with the restructuring plan, Fab 3 production was phased down beginning in the second quarter of 1998 and ceased in July 1998. From this time, Cypress has held the non-upgradable equipment for sale. As of January 2, 2000, some of the equipment still has not been sold. Cypress expects to recover the originally determined salvage value for such equipment, however, no assurance can be given as to the amount of proceeds that will ultimately be collected.

FAB 2 -- The decision to discontinue manufacturing SRAM products on Cypress's 0.6 micron 256K SRAM process in Texas resulted in excess equipment and employee redundancy. Charges with this decision totaled \$21.3 million, of which \$18.0 million related to the write-down of equipment, \$0.3 million related to the write-down of inventory, \$1.7 million related to severance and other employee related costs and \$1.3 million of other fixed asset related charges for incremental third party costs for the physical removal of the written down assets and the resolution of certain related tax matters.

Excess equipment in Fab 2 was written down based on the useful lives of the assets and the estimated salvage value of the assets. Cypress had the ability and intention to sell all the equipment immediately but due to the semiconductor industry slow-down, Cypress recognized immediate sale of the equipment would be difficult. The equipment was kept in the fab, ready for demonstration and testing by a willing buyer. Cypress used the equipment during the production phase-down period through May 1998.

As of January 2, 2000, some of this equipment remains on hand. Cypress expects to recover the originally determined salvage value for such equipment, however, no assurance can be given as to the amount of proceeds that will ultimately be collected.

FAB 1 and San Jose Operations -- The restructuring plan included the upgrade of Fab 1 to an eight-inch facility to ensure compatibility with Cypress's Fab 4 manufacturing facility in Minnesota. Fab 1 is used for research and development purposes. The plan assumed commencement of Fab 1 restructuring activities during the middle of 1998 with completion by the end of January 1999. The plan included the disposal and write-down of six-inch manufacturing equipment that was not upgradable to eight-inch capability. The remaining net book value of such assets was written off over the estimated useful life through January 1999. Incremental depreciation charges, to reflect the revised useful lives of this equipment, were included in research and development costs for 1998 and January 1999. Cypress also reserved \$1.0 million to write-down the value of certain other equipment and reserved \$1.3 million related to severance and other employee related costs. In fiscal 2000, Cypress expects to convert its San Jose R&D wafer fab from a six-inch facility into an eight-inch facility. This will make Cypress's R&D fab more compatible with its technologically advanced wafer fabs in Minnesota. This conversion is expected to be completed in June 2000.

ALPHATEC -- Cypress reserved \$5.1 million to provide for the consolidation of Thailand test activities from Alphatec, Cypress's subcontractor, with Cypress's Philippines facility. Of this \$5.1 million reserve, \$1.5 million was related to production inventories which were no longer useable as a result of

this consolidation, \$1.3 million was related to severance costs at the subcontractor and

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\$2.3 million was related to excess equipment and leasehold improvements which were no longer used. The assets were considered held for sale and were written down to their revised carrying value. The transfer of production from Alphatec to the Philippines facility began during the second quarter of 1998 and was completed in January 1999, one month later than originally planned.

OTHER -- Separate from the restructuring charge, Cypress recorded an additional charge of \$27.3 million, which was recorded as operating expenses. The charges were for inventory reserves (\$15.8 million), the write-off of pre-operating costs (\$3.8 million), the write-off of an equity investment (\$3.1 million), costs incurred to reimburse a customer for expenses incurred as a consequence of Cypress's defective products (\$2.5 million) and the write-off of obsolete equipment in Fab 4 (\$2.1 million). The write-down of inventory was made to establish incremental reserves for excess inventory and was recorded as cost of revenues.

The write-off of pre-operating costs included \$2.9 million related to Cypress's wafer fabrication operation in Bloomington, Minnesota and \$0.9 million related to its assembly and test operation in the Philippines. As a result of restructuring activities, Cypress wrote off its previously capitalized pre-operating costs as an impaired asset due to uncertainties surrounding their future economic benefits and accordingly the costs were written off to cost of sales. There were no capitalized pre-operating costs subsequent to the first quarter of 1998.

The \$3.1 million write-off of the investment was recorded against net interest and other income to reflect the decline in the value of a certain investment. Selling, general and administrative costs included the write-off of \$2.5 million in costs incurred to reimburse a customer for certain product expenses incurred. During Cypress's periodic review of equipment, some equipment was identified as obsolete and \$2.1 million was charged to cost of sales to write-off the obsolete equipment.

1997 Restructuring Costs - Cypress (ICW)

In fiscal 1997, Maxim Integrated Products, Inc. ("Maxim") agreed to purchase wafer fabrication assets from Cypress and its Fab Partners to purchase certain equipment from Cypress lessors thereby relieving Cypress of significant future equipment lease obligations. Maxim also acquired the property that housed the fab from Samsung Semiconductor, Inc. as part of the same transaction. The remaining assets to be disposed at the end of fiscal year 1997 were liquidated between April 1998 and June 1998 (including at an equipment auction in June 1998). Due to the lack of any meaningful sale of assets at the June auction, the actual liquidation of substantially all of the remaining assets was completed in November 1998. In May 1998, Maxim purchased approximately \$0.5 million of the assets to be disposed of in another asset sale transaction separate from the November 1997 transaction.

Cypress entered into the following material agreements related to the sale of its fab assets to Maxim in November 1997:

1. Asset purchase agreements -- related to the purchase of assets from each of the respective owners of assets. (Fab Partners, lessors, and Cypress.) The loss incurred by the Company as a result of these agreements is included as part of the restructuring costs in the accompanying financial statements.
2. Loan agreement -- related to a loan by Maxim to Cypress in the amount of \$2.0 million. Recorded as long-term debt in March 1998 and is payable at the earlier of an IPO, change in control, or four years.
3. Foundry agreement -- related to Cypress agreement for Maxim to provide BiCMOS foundry services to Cypress. This agreement terminated in December 1998. No effect on financials.
4. Operating agreement -- related to sharing of the fab between Cypress and Maxim for a period of up to seven months from close (actual duration was four months). Specifics of the agreements include how costs are shared, who

has control and when the fab transfers sequentially from Cypress to Maxim, the basis for one party billing the other for its manufacturing activities within the fab during the period of sharing the fab, and an agreement with Maxim that they will hire substantially all the wafer fab-related employees based on a prescribed schedule. The operating agreement was substantially completed in March 1998.

Cypress and Maxim also entered into an operating agreement that outlined the utilization of and cost-sharing for the facility during the six-month transition period following the sale of the fab assets to Maxim.

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While Maxim had acquired most of Cypress owned and leased fab assets and certain related assets, Cypress still owned or leased other wafer fabrication assets that were not purchased by Maxim. As such, in connection with the exit of the wafer fabrication business, Cypress recorded a restructure charge of approximately \$9.9 million related to impairment of assets sold to Maxim (\$2.2 million), impairment of assets held for sale (\$1.8 million), refinancing of lease agreements (\$3.6 million), employee severance (\$0.2 million), and other transaction costs (\$2.2 million). These agreements with Maxim resulted in a reduction of headcount of approximately 113 foundry employees (most of whom were hired by Maxim). The total expected cash outlay related to this charge was approximately \$6.7 million at December 29, 1997, of which the remaining \$4.1 million was paid in 1999.

In November 1997, Cypress also borrowed \$2.0 million from Maxim with interest accruing at 6% per annum. The note and interest are to be repaid at the earlier of: a majority sale of Cypress, the consummation of a public offering of Cypress common stock, or four years from the date of the note (November 2001). In addition, Cypress entered into a wafer purchase agreement with Maxim that allows Cypress to buy BiCMOS wafers from Maxim for a period of up to two years.

On the closing date of the transaction, November 20, 1997, Maxim purchased Cypress six-inch wafer fabrication leasehold improvements and manufacturing equipment as well as certain five-inch wafer fabrication equipment, which Cypress owned or acquired through capital leases. The carrying value of the six-inch and five-inch fabrication assets were \$14.25 million and \$0.4 million, respectively. Proceeds of the sale of these assets to Maxim were \$12.5 million to Cypress. Substantially all the assets held at December 29, 1997 were sold prior to January 3, 1999.

Interest Expense

Interest expense was \$9.6 million for fiscal 1999, compared to \$11.3 million for fiscal 1998 and \$8.5 million for fiscal 1997. Interest expense incurred during fiscal 1999 is primarily associated with the 6.0% Convertible Subordinated Notes, which were issued in September 1997 and are due in 2002. The decrease in fiscal 1999 is primarily attributable to the retirement of \$15.0 million of these Notes towards the end of 1998. Interest incurred during fiscal 1997 also included expenses from the convertible bond redeemed in March 1997 and a revolving line of credit.

Interest and Other Income, Net

Net interest and other income was \$52.7 million for fiscal 1999 compared to \$13.4 million for fiscal 1998 and \$13.1 million for fiscal 1997. Net interest and other income for fiscal 1999 included a \$36.2 million gain from the sale of a certain investment and \$17.8 million of interest income. Offsetting other income was \$1.0 million related to the amortization of bond issuance costs. In fiscal 1998, net interest and other income included interest income of \$15.2 million, a \$1.7 million pre-tax net gain related to the retirement of \$15.0 million of Cypress's 6.0% Convertible Subordinated Notes and foreign exchange gains of \$0.5 million. The 1998 interest and other income, net is offset by a non-recurring, pre-tax charge of \$3.1 million recorded to reflect the decline in value of a certain investment and \$1.0 million in amortization of bond issuance costs. Interest and other income, net for fiscal 1997 relates primarily to interest income of \$10.5 million and a \$3.8 million gain from the sale of a certain investment. .

Taxes

Cypress's effective tax rates for fiscal years 1999, 1998 and 1997 were 5.0%, 11.4% and 42.7%, respectively. A tax benefit of \$13.5 million was realized during fiscal 1998 compared to expenses of \$4.8 million and \$5.6 million during fiscal 1999 and fiscal 1997, respectively. The benefit was attributable primarily to the utilization of loss carrybacks, the utilization of research and development tax credits and non-U.S. income taxed at lower tax rates compared to U.S. tax rates, principally related to Cypress's operations in the Philippines.

During 1998, the United States Internal Revenue Service began an examination of tax returns for fiscal years 1994 through 1996. The examination is expected to continue through May 2000. Management believes that the outcome of the examination will not have a material effect on Cypress's consolidated financial position or results of operations.

Earnings Before Goodwill

Cypress reported basic earnings before goodwill ("EBG") and diluted EBG. EBG refers to earnings excluding pretax acquisition and restructuring related charges and credits, in-process research and development costs, transaction costs and amortization of intangible assets, net of tax. EBG for the year ended January 2, 2000 also excluded the one-time, pre-tax gain of \$36.2 million from the sale of a certain investment. These charges and credits are excluded from the computation of EBG and are collectively referred to

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as goodwill by Cypress. Cypress presented EBG as a measure of our operating results, however, EBG is not intended to replace operating income or net income as an indicator of operating performance or to replace cash-flow as a measure of liquidity because EBG is not a concept under generally accepted accounting principles. Also, our calculation of EBG may not be comparable to EBG as calculated by other companies. The table below reconciles basic and diluted net income (loss) per share to basic and diluted earnings (loss) before goodwill per share, respectively.

Reconciliation of basic net income (loss) per share to basic earnings (loss) per share before goodwill:

	Years ended		
	Jan. 2, 2000	Jan. 3, 1999	Dec. 29, 1997
	-----	-----	-----
Basic net income (loss) per share	\$ 0.87	\$(1.03)	\$0.08
Goodwill net of taxes per share	\$ 0.01	\$ --	\$ --
Restructuring costs (credits) net of taxes per share .	\$(0.03)	\$ 0.53	\$0.05
		-----	-----
Basic earnings (loss) before goodwill per share	\$ 0.85	\$(0.50)	\$0.13
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Reconciliation of diluted net income (loss) per share to diluted earnings (loss) per share before goodwill:

	Years ended		
	Jan. 2, 2000	Jan. 3, 1999	Dec. 29, 1997
	-----	-----	-----
Diluted net income (loss) per share	\$0.81	\$(1.03)	\$0.07
Goodwill net of taxes per share	\$0.01	\$ --	\$ --
Restructuring costs (credits) net of taxes per share	\$(0.03)	\$0.53	\$0.05
	-----	-----	-----
Diluted earnings (loss) before goodwill per share ...	\$0.79	\$(0.50)	\$0.12
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Stock Based Compensation

Cypress accounts for stock-based compensation arrangements in accordance with provision of APB No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and discloses pro forma information regarding net income (loss) and earnings (loss) per share as allowed by Statement of Accounting Standards No. 123 (SFAS 123). Under APB 25, compensation cost is recognized based on the difference, if any, between the fair market price of Cypress's stock on the date of grant and the amount an employee must pay to acquire the stock. As permitted by SFAS 123, Cypress discloses pro-forma net income (loss) and pro-forma net income (loss) per share as if it had recorded compensation cost. The pro-forma effect on net income (loss) and net income (loss) per share is based on the estimated grant date fair value, as defined by SFAS 123 for awards granted under the Cypress's 1994 and 1999 Stock Option Plans and its Employee Stock Purchase Plan. Inclusive of the pro-forma effect, basic and diluted net income was \$58.8 for fiscal 1999 and basic and diluted net loss was \$135.9 million and \$17.5 million for fiscal years 1998 and 1997, respectively. Pro-forma basic net income per share was \$0.56 and diluted net income per share was \$0.53 for fiscal 1999. Pro-forma basic and diluted net loss per share was (\$1.34) and (\$0.18) for fiscal years 1998 and 1997, respectively. The pro-forma effect may be impacted by various factors including re-pricing of existing options.

In January 1998, substantially all outstanding stock options with an exercise price in excess of \$9.75 per share were cancelled and replaced with new options having an exercise price of \$9.75 per share, the fair market value on the date that the employees accepted the repricing. A total of 10,464,000 shares were repriced. This repricing excluded the Board of Directors, the Chief Executive Officer and the Executive staff of Cypress.

Liquidity and Capital Resources

Cypress's cash, cash equivalents and short-term investments totaled \$270.6 million at the end of fiscal year 1999, a \$110.0 million increase from the end of 1998.

On January 31, 2000, Cypress filed a universal shelf registration statement with the Securities and Exchange Commission (SEC). The registration statement, which was effective February 8, 2000, will allow Cypress to market and sell up to \$400.0 million of its securities. The shelf registration statement will allow Cypress flexibility to raise funds from the offering of debt securities, common stock, or a combination thereof, subject to market conditions and Cypress's capital needs.

During fiscal 1999, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, Cypress could through March 2001 sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of \$300.0 million dollars. The full amount of this shelf registration statement has been used

by the transactions described in this paragraph. On January 19, 2000, Cypress completed a \$283.0 million registered-placement of 5-year convertible subordinated notes. The notes are due in the year 2005, with a coupon rate of 4.00% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress no earlier than February 5, 2003. Net proceeds were \$275.2 million, after issuance costs of \$7.8 million. Pursuant to the shelf registration, on March 29, 1999, Cypress sold 7.2 million shares of common stock. Cypress received approximately \$33.8 million in proceeds, net of issuance costs, from the sale of these shares. The remaining 2.5 million shares were sold by selling stockholders. Cypress did not receive any proceeds from the shares sold by the selling stockholders.

During 1999, Cypress purchased \$114.1 million in capital equipment, a \$31.2 million increase from the \$82.9 million purchased in 1998, and a \$29.7 million decrease from the \$143.8 million purchased in 1997. Cypress purchased equipment for its domestic wafer fabrication plants, its test and assembly facility in the Philippines, its backend manufacturing subcontractors and its design and technology groups. Equipment purchased for its fabs is expected to improve wafer

manufacturing capacity and capabilities as Cypress implements new technologies, including its 0.16 and 0.25 micron processes. A majority of the equipment purchased was for Fab 4a located in Minnesota to increase its capacity and capability. Equipment purchased for the Philippines and its subcontractors was used to increase manufacturing capacity and tool certain packaging capabilities. Capital equipment purchases for the technology group are expected to enhance and accelerate research and development capabilities. Capital expenditures in 2000 are expected to be significantly higher compared to 1999 as Cypress continues its efforts to increase its wafer manufacturing capabilities and capacity by purchasing more equipment for Fab 4a and by constructing Fab 4b and Fab 4c, located on the same site as Fab 4a in Minnesota. Cypress also expects to continue upgrading its research and development fab in San Jose from six-inch to eight-inch to ensure compatibility with Cypress's wafer manufacturing facilities in Minnesota. The conversion is expected to be completed by June 2000. Cypress will also continue to purchase new software and equipment to enhance its research and development capabilities. In fiscal 2000, Cypress expects to purchase approximately \$250.0 million in capital equipment.

In March 1999, Cypress announced a program whereby all U.S. employees were offered loans to facilitate the exercise of vested stock options. Under the terms of the program, only options which were vested as of March 1, 1999 and whose exercise price was less than or equal to \$9.75 could qualify for a loan. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress or 3 years from the grant date of the loan. The loans bear interest at a rate of 4.71% and are secured by Cypress common shares. At January 2, 2000, amounts receivable under this program totaled \$8.2 million.

In 1998, Cypress retired a total of \$15.0 million principal of its \$175.0 million, 6.0% convertible subordinated notes for \$12.9 million, resulting in a pre-tax net gain of \$1.7 million. The net gain was recorded as interest and other income. The notes, which were issued in September 1997, are due October 1, 2002 and contain a coupon rate of 6.0%. The remaining outstanding notes are convertible into approximately 6,772,000 shares of common stock and are callable by Cypress on or after October 2, 2000. A portion of the proceeds from the notes were used to repay the \$49.0 million balance outstanding under the revolving credit facility, acquire equipment, purchase a building in Woodinville, Washington and for stock repurchases in 1997. The remaining proceeds have been invested in interest-bearing investment grade securities and have been used for general corporate purposes, including capital expenditures to add manufacturing capacity and capability, development and commercialization of products, working capital and strategic acquisitions or investments.

During fiscal 1997, Cypress entered into an agreement to borrow \$2.0 million from a third party with interest accruing at 6.0% per annum. The loan was repaid in April 1999. Also during 1997, Cypress issued promissory notes to three significant customers for \$2.0 million, \$1.4 million and \$0.3 million, bearing interest at 6.0%, 10.0% and 7.5%, respectively and due in October 2000, August 2000 and July 1999, respectively. As of January 2, 2000, a total of \$0.7 million was payable under the notes.

In fiscal years 1997 and 1998, the Board of Directors authorized the repurchase of up to 14.0 million shares of Cypress's common stock. Through January 3, 1999, 8.1 million shares had been repurchased under this entire program for \$67.5 million. On February 25, 1999, the Board of Directors terminated the stock repurchase program. The unsold repurchased shares were and are expected to continue to be used for option exercises under Cypress's 1994 Stock Option Plan and stock purchases under the Employee Stock Purchase Plan. During 1998, Cypress reissued 1.8 million shares of common stock under such plans. During fiscal 1999, Cypress reissued a total of 8.3 million shares in relation to the stock offering described above and in conjunction with the 1994 Stock Option Plan and Employee Purchase Plan. Such shares had been repurchased under the 1997/1998 plan and repurchase programs prior to 1997.

In February 1997, Cypress called for redemption of all of the 3.15% Convertible Subordinated Notes which was effective as of March 26, 1997. At the time of conversion, approximately 85% of the holders elected to convert their notes into Cypress's common stock, increasing the amount of common stock outstanding by 6.8 million shares. As a result of holders electing the cash settlement, Cypress paid out \$14.3 million.

In April 1997, Cypress sold capital equipment located in its Minnesota wafer fabrication facility to Fleet Capital Leasing ("Fleet") in a sale-leaseback agreement. In October 1997, Cypress entered into a similar agreement with Comdisco, Inc. ("Comdisco") for other capital equipment located in Minnesota. Cypress received a total of \$28.2 million from Fleet and Comdisco in exchange for the capital equipment and as a result of the transactions, recorded an immaterial gain that will be amortized over the life of the leases.

In 1994 and 1995, Cypress entered into three operating lease agreements with respect to its office and manufacturing facilities in San Jose and Minnesota. In 1999, the lease related to the San Jose office and research and development facilities expired. In October 1999, Cypress re-entered into a new operating lease agreement with the same lessor for the same facilities. In April 1996, Cypress entered into an additional lease agreement for two office facilities in San Jose. These agreements require that Cypress maintain a specific level of restricted cash or investments to serve as collateral for these leases and maintain compliance with certain financial covenants. Cypress's restricted investment balance as of January 2, 2000 and January 3, 1999 was \$61.2 million and \$59.7 million, respectively, and is recorded as other assets on the Balance Sheet. Cypress was in compliance with its covenants at January 2, 2000.

In 1997, Cypress established a revolving line of credit with a bank totaling up to \$6.5 million. Cypress cancelled this line of credit in June 1999. In July 1996, Cypress established a three-year \$100.0 million unsecured revolving credit facility with Bank of America National Trust and Savings Association as agent on behalf of certain banks. During 1998, Cypress cancelled this line of credit.

Cypress believes that existing cash and cash equivalents and cash from operations will be sufficient to meet present and anticipated working capital requirements and other cash needs for at least the next twelve months. Beyond twelve months, changes in market demand and the possible need to increase manufacturing capacity and capability, may cause Cypress to raise additional capital through debt or equity financing. Although additional financing may be required, there can be no assurance that it would be available to Cypress or available at terms Cypress deems satisfactory.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Cypress is exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. To mitigate these risks, Cypress utilizes derivative financial instruments. Cypress does not use derivative financial instruments for speculative or trading purposes.

The fair value of Cypress's investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of the major portion of Cypress's investment portfolio. An increase in interest rates would not significantly increase interest expense due to the fixed nature of Cypress's debt obligation.

A majority of Cypress's revenue and capital spending is transacted in U.S. dollars. However, Cypress does enter into these transactions in other currencies, primarily Japanese yen and certain other European currencies. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, Cypress has established revenue and balance sheet hedging programs. Cypress's hedging programs reduce, but do not always eliminate, the impact of foreign currency rate movements. Based on Cypress's overall currency rate exposure at January 2, 2000, a near-term 10% appreciation or depreciation in the U.S. dollar would have an immaterial effect on Cypress's financial position, results of operations and cash flows over the next fiscal year.

All of the potential changes noted above are based on sensitivity analyses performed on Cypress's balances as of January 2, 2000.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per-share amounts)

ASSETS	January 2, 2000	January 3, 1999
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 155,011	\$ 142,102
Short-term investments	115,545	18,459
	-----	-----
Total cash, cash equivalents and short-term investments	270,556	160,561
Accounts receivable, net (Note 2)	100,114	68,955
Inventories (Note 2)	89,432	65,096
Other current assets	77,293	55,437
	-----	-----
Total current assets	537,395	350,049
Property, plant and equipment, net (Note 2)	357,183	348,936
Other assets (Note 2)	222,646	125,011
	-----	-----
	\$ 1,117,224	\$ 823,996
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 99,549	\$ 53,932
Accrued compensation and employee benefits	32,428	20,293
Other accrued liabilities (Note 2)	19,717	12,852
Deferred income on sales to distributors	20,760	13,300
Income taxes payable	20,311	13,591
	-----	-----
Total current liabilities	192,765	113,968
Convertible subordinated notes	160,000	160,000
Deferred income taxes	56,100	41,065
Other long-term liabilities	10,384	10,240
	-----	-----
Total liabilities	419,249	325,273
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, 250,000 shares authorized; 115,496 and 110,753 issued; 110,516 and 97,465 outstanding at January 2, 2000 and January 3, 1999	1,155	1,107
Additional paid-in-capital	534,225	482,781
Notes receivable from stockholders	(8,186)	--
Deferred compensation	(484)	(1,152)
Retained earnings	243,989	180,625
	-----	-----
Total stockholders' equity	770,699	663,361
Less: shares of common stock held in treasury, at cost; 4,980 shares at January 2, 2000 and 13,288 shares at January 3, 1999	(72,724)	(164,638)
	-----	-----
Total stockholders' equity	697,975	498,723
	-----	-----
	\$ 1,117,224	\$ 823,996
	=====	=====

The accompanying notes form an integral part of these
Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per-share amounts)

	Year Ended		
	January 2, 2000	January 3, 1999	December 29, 1997
Revenues	\$ 705,487	\$ 554,891	\$ 598,485
Cost of revenues	383,639	409,108	393,769
Research and development	129,331	114,551	104,300
Selling, general and administrative	105,882	91,016	82,026
Acquisition and other non-recurring costs, net ...	37,623	--	--
Restructuring costs	(3,811)	60,737	9,882
Total operating costs and expenses	652,664	675,412	589,977
Operating income (loss)	52,823	(120,521)	8,508
Interest expense	(9,617)	(11,276)	(8,461)
Interest income and other, net	52,665	13,356	13,092
Income (loss) before income taxes	95,871	(118,441)	13,139
(Provision) benefit for income taxes	(4,817)	13,523	(5,613)
Net income (loss)	\$ 91,054	\$ (104,918)	\$ 7,526
Net income (loss) per share:			
Basic	\$ 0.87	\$ (1.03)	\$ 0.08
Diluted	\$ 0.81	\$ (1.03)	\$ 0.07
Weighted average common and common equivalent shares outstanding:			
Basic	104,703	101,944	100,137
Diluted	111,735	101,944	107,866

The accompanying notes form an integral part of these
Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Notes Receivable From Stockholders	Deferred Compensation	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	Shares	Amount						
Balances at December 30, 1996	91,104	\$1,014	\$344,533	--	\$ (621)	\$284,033	\$ (116,843)	\$512,116
Re-issuance of treasury shares under employee stock plans and other	5,556	22	36,980	--	--	--	--	37,002
Premiums received from put option issuances	--	--	2,760	--	--	--	--	2,760
Tax benefit resulting from stock option transactions	--	--	6,959	--	--	--	--	6,959
Issuance of common stock from the conversion of the convertible debt	6,789	67	83,036	--	--	--	--	83,103
Repurchase of common stock under stock repurchase program .	(516)	--	--	--	--	--	(5,288)	(5,288)
Adjustment to deferred compensation	--	--	--	--	454	--	--	454
Net income for the year	--	--	--	--	--	7,526	--	7,526
Balances at December 29, 1997	102,933	1,103	474,268	--	(167)	291,559	(122,131)	644,632
Cypress (ICW) activities for the Quarter ended March 28, 1999	--	--	--	--	--	1,622	--	1,622
Re-issuance of treasury shares under employee stock plans and other	2,139	4	1,893	--	--	(7,638)	19,767	14,026
Premiums received from put option issuances	--	--	6,620	--	--	--	--	6,620
Repurchase of common stock under stock repurchase program .	(7,607)	--	--	--	--	--	(62,274)	(62,274)

Adjustment to deferred compensation	--	--	--	--	(985)	--	--	(985)
Net loss for the year	--	--	--	--	--	(104,918)	--	(104,918)
Balances at January 3, 1999	97,465	1,107	482,781	--	(1,152)	180,625	(164,638)	498,723
Re-issuance of treasury shares and issuance of common stock under employee stock plans and other	13,051	48	37,438	--	--	(27,690)	91,914	101,710
Tax benefit resulting from stock option transactions	--	--	13,772	--	--	--	--	13,772
Notes receivable from stockholders	--	--	--	(8,186)	--	--	--	(8,186)
Compensation expense to outside consultants	--	--	234	--	--	--	--	234
Adjustment to deferred compensation	--	--	--	--	668	--	--	668
Net income for the year	--	--	--	--	--	91,054	--	91,054
Balances at January 2, 2000	110,516	\$1,155	\$534,225	\$(8,186)	\$(484)	\$243,989	\$(72,724)	\$697,975

The accompanying notes form an integral part of these Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	January 2, 2000	January 3, 1999	December 29, 1997
Cash flow from operating activities:			
Net income (loss)	\$91,054	\$(104,918)	\$7,526
Adjustments to reconcile net income (loss) to net cash generated by operating activities:			
Depreciation and amortization	107,423	114,598	114,013
Acquired in-process research and development	4,019	--	--
Non-cash interest and amortization of debt issuance costs	1,034	1,034	3,978
Net gain on early retirement of debt	--	(1,734)	--
Loss on sale of fixed assets	--	1,069	--
Loss on write down of fixed assets	10,336	--	--
Deferred gain on sale of fixed assets	(3,959)	--	(3,431)
Gain on sale of investment	(36,237)	--	--
Restructuring costs (credits)	(3,811)	60,737	4,952
Other non-recurring costs	--	8,827	--
Deferred income taxes	(9,971)	(797)	14,782
Changes in operating assets and liabilities:			
Receivables	(30,282)	9,332	4,191
Inventories	(22,788)	18,013	(25,895)
Other assets	(10,577)	35,298	(152)
Accounts payable and accrued liabilities	55,280	(14,862)	(16,695)
Deferred income	7,460	2,445	(5,266)
Income taxes payable	6,720	(22,770)	15,870
Net cash flow generated from operating activities	165,701	106,272	113,873
Cash flow from investing activities:			
Purchase of investments	(218,236)	(110,718)	(112,185)
Sale or maturities of investments	66,872	127,195	93,870
Acquisition of property, plant and equipment	(114,120)	(82,929)	(143,803)
Acquisition of Anchor	(14,956)	--	--
Acquisition of Arcus	(9,883)	--	--
Acquisition of technology rights	(4,700)	--	--
Acquisition of product rights and equity interest ... from Altera	(12,187)	--	--
Proceeds from sale of investment	36,237	--	--
Proceeds from sale of equipment	15,179	6,551	40,789
Net cash flow used for investing activities	(255,794)	(59,901)	(121,329)
Cash flow from financing activities:			

Repayment of line of credit	--	(3,369)	(49,249)
Repayment of debt	(2,653)	--	--
Repayment of notes payable	--	(1,186)	(5,780)
Issuance of convertible subordinated notes, net of issuance costs	--	--	170,187
Redemption of convertible debt	--	--	(14,331)
Early retirement of debt	--	(12,916)	--
Restricted investments related to building lease agreements	--	--	601
Repurchase of common stock	--	(62,274)	(5,288)
Re-issuance of treasury shares and issuance of common stock	113,444	12,470	41,173
Issuance of notes to stockholders	(8,186)	--	--
Premiums received from put options	--	6,620	2,760
Other long-term liabilities, including minority interest	397	(1,082)	(615)
Net cash flow generated (used) for financing activities	103,002	(61,737)	139,458
Cypress (ICW) net change in cash during the quarter ended March 28, 1999			
	--	3,434	--
Net increase (decrease) in cash and cash equivalents ..	12,909	(11,932)	132,002
Cash and cash equivalents, beginning of year	142,102	154,034	22,032
Cash and cash equivalents, end of year	\$155,011	\$142,102	\$154,034
Supplemental disclosures:			
Cash paid during the year for:			
Interest	\$9,600	\$10,092	\$5,707
Income taxes	\$3,546	\$452	\$1,550

The accompanying notes form an integral part of these
Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

Cypress -- Cypress Semiconductor Corporation ("Cypress") designs, develops, manufactures and markets a broad line of high-performance digital and mixed-signal integrated circuits for a range of markets, including computers, data communications, telecommunications and instrumentation systems.

Cypress's operations outside of the U.S. expanded in 1996 with the addition of its test and assembly plant in the Philippines. Cypress's other foreign operations include several sales offices and design centers located in various parts of the world. Revenues to international customers were 51%, 45% and 39% of total revenues in 1999, 1998 and 1997, respectively.

In 1999, Cypress purchased from Altera Corporation, Altera's 17% equity interest in Cypress Semiconductor (Texas) Inc. ("CTI"), Cypress's wafer fabrication facility in Texas. As a result of this purchase, all of Cypress's subsidiaries were wholly owned at January 2, 2000 (See Note 4).

The consolidated financial statements include the accounts of Cypress and all of its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year -- Beginning with its 1998 fiscal year end, Cypress ended its fiscal months, quarters and years on Sundays, rather than Mondays, bringing its fiscal period ends in line with predominant industry practice. Fiscal years 1999, 1998 and 1997 ended January 2, 2000, January 3, 1999 and December 29, 1997, respectively. Fiscal year 1999 was a 52-week year ending on the Sunday closest to December 31, fiscal year 1998 was a 53-week year ending on the Sunday closest to December 31 and fiscal year 1997 was a 52-week year ending on the Monday closest to December 31. Operating results for the additional week were considered immaterial to Cypress's consolidated operating results for the year ended January 3, 1999.

Management Estimates -- The preparation of financial statements in

conformity with generally accepted accounting principles 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, although such differences are not expected to be material to the financial statements.

Reclassifications -- Certain prior year amounts have been adjusted to conform to current year presentation.

Fair Value of Financial Instruments -- For certain of Cypress's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these items. The estimated fair market value of Cypress's investments reasonably estimate their fair values based on market information. At January 2, 2000, the estimated fair value of the Convertible Subordinated Notes was \$234.2 million.

The estimated fair values have been determined by Cypress, using available market information. However, considerable judgement is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that Cypress could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair value amounts.

Cash Equivalents-- Highly liquid investments purchased with an original maturity of ninety days or less are considered to be cash equivalents.

Investments --All Cypress investments are classified as available-for-sale. Investments in available-for-sale securities are reported at fair value with unrealized gains and losses, net of related tax, if any, included as a component of stockholders' equity. Unrealized gains and losses net of related taxes, were not material for the year ended January 2, 2000 or cumulatively.

In fiscal 1998, Cypress recorded a \$3.0 million writedown of a certain investment that was believed to be permanently impaired. In 1999, due to a resurgence in the semiconductor business, the value of the investment increased. In fiscal 1999, Cypress sold the investment, recording a pre-tax gain of \$36.2 million, which is included in interest and other income, net.

Inventories -- Inventories are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market. Market is based on estimated net realizable value.

Property, Plant and Equipment -- Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the assets as presented below. Leasehold improvements and leasehold interests are amortized over the shorter of the estimated useful lives of the assets or the remaining term of the lease. Accelerated methods of computing depreciation are used for tax purposes.

	Useful Lives in Years -----
Equipment.....	3 to 7
Buildings and leasehold improvements....	7 to 10
Furniture and fixtures.....	5

Pre-operating Costs -- Incremental costs incurred in connection with developing major production capability at new manufacturing plants, including depreciation, amortization and cost of qualification of equipment and production processes were capitalized up to December 1997. Pre-operating costs totaling \$3.8 million, net of accumulated amortization were included in other assets at December 29, 1997. Such costs were being amortized over five years at a rate based on estimated units to be manufactured during that period. In fiscal 1998, these costs were written off and at January 2, 2000, no pre-operating costs are remaining.

Long-Lived Assets -- Long-lived assets held and used by Cypress are

reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, all long-lived assets to be disposed of are reported at the lower of carrying amount or fair market value, less expected selling costs.

Revenue Recognition -- Revenues from product sales are generally recognized upon shipment and a reserve is provided for estimated returns. A portion of Cypress's sales are made to domestic distributors under agreements which allow certain rights of return and price protection on products unsold. Accordingly, Cypress defers recognition of revenues and profit on such sales until these distributors resell the products.

Cypress sells to certain international distributors with a provision for price adjustments on certain products. Cypress reserves for all anticipated price adjustments. No rights of return exist on sales to international distributors. Accordingly, sales are recognized upon shipment.

Cypress also has inventory, which is held by certain customers on a consignment basis. Revenues are recorded when title transfers as defined per the respective consignment agreements.

Income Taxes -- Cypress follows the liability method of accounting for income taxes which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

Earnings Per Share -- In accordance with Statement of Accounting Standard No. 128 ("SFAS 128"), Cypress reports Earnings Per Share ("EPS"), both basic and diluted EPS on the income statement. Basic EPS is based upon weighted-average common shares outstanding. Diluted EPS is computed using the weighted average common shares outstanding plus any potentially dilutive securities, except when their effect is anti-dilutive. Dilutive securities include stock options and convertible debt.

Translation of Foreign Currencies -- Cypress uses the U.S. dollar as its functional currency for all foreign subsidiaries. Accordingly, gains and losses from translation of foreign currency financial statements into U.S. dollars are included in results of operations. Sales to customers are primarily denominated in U.S. dollars. All foreign currency translation gains and losses have not been material in any year.

Concentration of Credit Risk -- Financial instruments that potentially subject Cypress to concentrations of credit risk are primarily investments and trade accounts receivable. Cypress's investment policy requires cash investments to be placed with high-credit quality institutions and to limit the amount of credit from any one issuer.

Cypress sells its products to original equipment manufacturers and distributors throughout the world. Cypress performs ongoing credit evaluations of its customers' financial condition whenever deemed necessary and generally does not require collateral. Cypress maintains an allowance for doubtful accounts receivable based upon the expected collectibility of all accounts receivable.

No one end user accounted for greater than 10% of revenues in 1999, 1998 or 1997. Sales to one distributor accounted for greater than 10% of total revenues in 1999, 1998 and 1997.

Accounting for Stock-Based Compensation -- Cypress accounts for its stock option plans and its employee stock purchase plan in accordance with provisions of the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". In accordance with Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", Cypress provides additional pro-forma disclosures in Note 7.

Comprehensive Income -- In 1998, Cypress adopted SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances, excluding transactions resulting from investments by owners and

distributions to owners. Cypress did not have a material difference between net income and comprehensive income for the year ended January 2, 2000 or cumulatively.

Segment Reporting -- In fiscal 1998, Cypress adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for disclosures about products and services, geographic areas and major customers. (See Note 11).

Recent Accounting Pronouncements -- In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 137 ("SFAS 137"), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS 137 amends Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments including standalone instruments, such as forward currency exchange contracts and interest rate swaps or embedded derivatives and requires that these instruments be marked-to-market on an ongoing basis. These market value adjustments are to be included either in the income statement or stockholders' equity, depending on the nature of the transaction. Cypress is required to adopt SFAS 133 in the first quarter of its fiscal year 2001. The effect of SFAS 133 is not expected to be material to the Cypress's financial statements.

Note 2: Balance Sheet Components

Available-For-Sale Securities

Cypress's portfolio of available-for-sale securities consists of the following:

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Corporate debt securities	\$175,510	\$101,042
State and municipal obligations	77,902	73,607
Money markets	69,755	--
Other	39,811	23,341
	-----	-----
Total available-for-sale securities	\$362,978	\$197,990
	=====	=====

At January 2, 2000 and January 3, 1999, the net unrealized holding gains and losses on securities were immaterial. The securities at January 2, 2000 and January 3, 1999 by contractual maturity are shown below.

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Due in one year or less	\$251,654	\$140,944
Due after one year through two years	111,324	57,046
	-----	-----
Total available-for-sale securities	\$362,978	\$197,990
	=====	=====

Accounts Receivable, Net

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Accounts receivable, gross	\$103,098	\$72,005
Allowance for doubtful accounts and customer returns	(2,984)	(3,050)
	-----	-----
Accounts receivable, net	\$100,114	\$68,955
	=====	=====

Inventories, Net

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Raw materials	\$13,360	\$8,939
Work-in-process	45,247	37,087
Finished goods	30,825	19,070
	-----	-----
Total	\$89,432	\$65,096
	=====	=====

Property, Plant and Equipment

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Land	\$13,829	\$13,533
Equipment	733,581	623,393
Buildings and leasehold improvements	101,976	96,825
Furniture and fixtures	8,449	6,656
	-----	-----
Total property, plant and equipment	857,835	740,407
Accumulated depreciation and amortization	(500,652)	(391,471)
	-----	-----
Net property, plant and equipment	\$357,183	\$348,936
	=====	=====

Other Assets

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Restricted investments	\$61,198	\$59,742
Long-term investments	111,324	57,046
Other, principally purchased intangibles	50,124	8,223
	-----	-----
Total	\$222,646	\$125,011
	=====	=====

In September 1999, Cypress acquired the rights and patents covering the Silicon Oxide Nitride Oxide Silicon ("SONOS") non-volatile memory technology from NVX Corporation for \$4.7 million. These intangible assets are included in Other Assets on the Consolidated Balance Sheet and are being amortized over their useful life.

Other Accrued Liabilities

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Sales commissions	\$3,031	\$3,290
Restructuring reserves	2,313	8,070
Warranty reserve	2,672	--
Other	11,701	1,492
	-----	-----
Other accrued liabilities	\$19,717	\$12,852
	=====	=====

Note 3: Acquisitions

Acquisition of Arcus Technology Companies

On June 30, 1999, Cypress acquired all of the outstanding capital stock of Arcus Technology (USA), Inc. and the assets of Arcus Technology (India) Limited (referred to as "Arcus" on a combined basis). Arcus specializes in data communications technologies including dense wave multiplexing (which allows multiple signals to be transmitted over a single fiber optic cable) and "IP over SONET" (the technology used to code and decode Internet traffic to send it over the telephone system). The acquisition was accounted for using purchase

accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were

included in Cypress's condensed consolidated balance sheet as of and since June 30, 1999, the effective date of the purchase. The results of operations of Arcus are included in Cypress's consolidated results of operations during the second half of Cypress's fiscal year 1999.

Cypress acquired Arcus for a total consideration of \$17.7 million, including cash of \$11.5 million and stock of \$6.2 million, (excluding direct acquisition costs of \$0.8 million for legal and accounting fees). Through December 31, 1999 Cypress paid \$9.9 million in cash and issued \$2.3 million in stock. The remaining \$1.6 million in cash and \$3.9 million in stock are expected to be paid and issued by future installments. The total purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed at the time of the acquisition based on independent appraisals and management estimates as follows:

(In thousands)	
Fair value of tangible net assets	\$391
In-process research and development	2,500
Current technology	4,400
Assembled workforce	1,600
Deferred compensation	5,553
Excess of purchase price over net assets acquired	3,264

	\$17,708
	=====

The valuation method used to value the in-process technology of Arcus is a form of discounted cash flow method commonly known as the "percentage of completion" approach whereby the cash flow derived from the technology is multiplied by the percentage of completion of the in-process technology. This approach is a widely recognized appraisal method and is commonly used to value technology assets. The value of the in-process technology of Arcus is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 32.5%, which was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying milestones of completed project steps as compared to the remaining milestones to be completed to bring the project to technical and commercial feasibility. Milestones were based on management's estimate of tasks completed, value added and degree of difficulty of the portion of the project completed as of the acquisition date, in comparison with the tasks to be completed to bring the project to technical and commercial feasibility. A deduction of 7.5% to 12.0% of expected future revenue was made in calculating future cash flows from in-process technology and attributed to previously existing technology.

The value of current technology was determined by estimating the future cash flows to be derived from products based on existing commercially feasible technologies at the date of the acquisition, and discounting associated cash flow using a discount rate of 25.0%, which was appropriate for the business risks inherent in manufacturing and marketing these products. Factors considered in estimating the future cash flow to be derived from the existing technology include risks related to the characteristics and applications of the technology, existing and future markets, and assessment of the age of the technology within its life span.

The value of the assembled workforce is based on estimated costs to replace the existing staff including recruiting, hiring and training costs for all categories of employee to fully deploy a work force of similar size and skill to the same level of productivity as the existing work force. Deferred compensation value is the cash and stock consideration to be paid by future installments.

Development of in-process technology remains a substantial risk to Cypress due to many factors including the remaining effort to achieve technical feasibility, rapidly changing customer requirements and competitive threats from other companies and technologies. Additionally, the value of the other intangible assets acquired may become impaired. The in-process research and development valuation as well as the valuation of other intangible assets was prepared by an independent appraiser of technology assets, based on inputs from Cypress and Arcus management, utilizing valuation methods that are recognized by the Securities and Exchange Commission ("SEC") staff. However, there can be no assurance that the SEC staff will not take issue with any assumptions used in the appraiser's valuation model and require Cypress to revise the amount allocated to in-process research and development.

The amounts allocated to current technology, assembled workforce, and residual goodwill are being amortized over their respective estimated useful lives between six and ten years using the straight-line method. The deferred compensation is being amortized on a straight line basis over two years.

Acquisition of Anchor Chips, Inc.

On May 25, 1999, Cypress acquired all of the outstanding capital stock of Anchor Chips, Inc. ("Anchor"), a company that designs and markets micro-controller chips that support Universal Serial Bus applications. The acquisition was accounted for using purchase accounting. Accordingly, the estimated fair value of assets acquired and liabilities assumed were included in Cypress's condensed consolidated balance sheet as of and since May 25, 1999, the effective date of the purchase. The results of operations of Anchor were included in Cypress's consolidated results of operations as of and since the effective date of the purchase.

Cypress paid approximately \$15.0 million in cash, which excludes direct acquisition costs of \$0.7 million for investment banking, legal and accounting fees. In addition Cypress assumed net liabilities of approximately \$0.9 million. The total purchase consideration of \$15.9 million was allocated to the estimated fair value of assets acquired and liabilities assumed based on a valuation completed by management, using a valuation methodology commonly applied by independent appraisers, as follows:

	(In thousands)	
Fair value of tangible net liabilities		\$(919)
In-process research and development		1,519
Assembled workforce		1,320
Current technology		13,036

		\$14,956
		=====

The valuation method used to value the in-process technology of Anchor is a form of discounted cash flow method commonly known as the "percentage of completion" approach whereby the cash flow derived from the technology is multiplied by the percentage of completion of the in-process technology. This approach is a widely recognized appraisal method and is commonly used to value technology assets. The value of the in-process technology of Anchor is the discounted expected future cash flow attributable to the in-process technology, taking into consideration the percentage of completion of products utilizing this technology, utilization of pre-existing technology, the risks related to the characteristics and applications of the technology, existing and future markets, and the technological risk associated with completing the development of the technology. The cash flow derived from the in-process technology projects was discounted using a discount rate of 32.5%, which was appropriate for the risk of this technology for which commercial feasibility had not been established. The percentage of completion for each in-process project was determined by identifying milestones of completed project steps as compared to the remaining milestones to be completed to bring the project to technical and commercial feasibility. Milestones were based on management's estimate of tasks completed, value added and degree of difficulty of the portion of the project completed as of the acquisition date, in comparison with the tasks to be completed to bring the project to technical and commercial feasibility. A

deduction of 7.5% to 12.0% of expected future revenue was made in calculating future cash flows from in-process technology and attributed to previously existing technology.

The value of the assembled workforce is based on estimated costs to replace the existing staff including recruiting, hiring and training costs for all categories of employee to fully deploy a work force of similar size and skill to the same level of productivity as the existing work force.

The value of current technology was determined by estimating the future cash flows to be derived from products based on existing commercially feasible technologies at the date of the acquisition, and discounting associated cash flow using a discount rate of 25.0%, which was appropriate for the business risks inherent in manufacturing and marketing these products. Factors considered in estimating the future cash flow to be derived from the existing technology include risks related to the characteristics and applications of the technology, existing and future markets, and assessment of the age of the technology within its life span.

Development of in-process technology remains a substantial risk to Cypress due to many factors including the remaining effort to achieve technical feasibility, rapidly changing customer requirements and competitive threats from other companies and technologies. Additionally, the value of the other intangible assets acquired may become impaired. The in-process research and development valuation as well as the valuation of other intangible assets was prepared by management, utilizing valuation methods that are recognized by the Securities and Exchange Commission ("SEC") staff. However, there can be no assurance that the SEC staff will not take issue with any assumptions used in the valuation model and require Cypress to revise the amount allocated to in-process research and development.

The amounts allocated to current technology, and assembled workforce are being amortized over their estimated useful lives of five -years using the straight-line method. There was no goodwill associated with the acquisition of Anchor.

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Acquisition from Altera

On October 5, 1999, Cypress announced that it has signed a definitive agreement with Altera Corporation ("Altera") to acquire Altera's MAX 5000 Programmable Logic Device ("PLD") product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas ("Fab II") for approximately \$13.0 million in cash. The acquisition was accounted for as a purchase. In 1988, Altera licensed its MAX 5000 family of products to Cypress in consideration of manufacturing capacity. Altera later acquired a 17% equity interest in the Round Rock wafer fabrication facility. By acquiring Altera's equity interest in October 1999, Fab II is now 100% owned by Cypress.

Merger with IC WORKS Incorporated

On April 1, 1999, Cypress completed a merger with IC WORKS Incorporated ("ICW"), which was accounted for as a pooling of interests. The condensed consolidated financial statements and the notes to the condensed consolidated financial statements give effect to the merger for all periods presented. The fiscal years of Cypress and ICW were different. ICW has changed its fiscal year-end to coincide with that of Cypress. Cypress's consolidated statements of operations for the periods ended January 3, 1999 and December 27, 1997, have been combined with ICW's consolidated statements of operations for the corresponding twelve month periods ended December 28, 1998 and March 28, 1998.

During fiscal 1999, Cypress recorded merger-related transaction costs of \$3.7 million related to the acquisition of ICW. These charges, which consist primarily of investment banking and other professional fees, have been included under acquisition and merger costs in the Consolidated Statements of Operations.

Note 4: Restructuring and Other Non-Recurring Costs

1999 Restructuring, Merger and Acquisition, and Other Non-Recurring Costs

During fiscal 1999, Cypress recorded a net \$33.8 million in restructuring,

merger and acquisition, and other non-recurring costs. These one-time, non-recurring costs included a \$12.3 million write-off of a certain manufacturing asset that is not in service and will be scrapped and an \$11.9 million one-time compensation charge associated with retention and performance payments to key employees in December 1999. In the first quarter of fiscal 1999, Cypress recorded one-time charges of \$3.7 million associated with the merger with IC Works. These charges were for investment banking fees and other professional fees. Cypress also recorded \$8.8 million in costs associated with the purchases of Anchor and Arcus comprising of \$4.0 million for in-process technology, \$1.6 million for transaction costs and \$3.2 million in amortization of intangible assets. During the fourth quarter of fiscal 1999, Cypress acquired Altera's MAX 5000 Programmable Logic Device ("PLD") product line and its equity interest in Cypress's wafer fabrication facility in Round Rock, Texas. As part of the transaction, Cypress recorded intangible assets associated with the product rights and incurred \$0.3 million for the amortization of these intangibles. These non-recurring charges were offset by a reversal of \$3.0 million of the 1998 restructuring reserve. The reversed charges related to \$2.2 million of severance and other employee related charges and \$0.3 million for the provision for phase-down and completion of the Alphatec restructuring activities. Cypress also reversed \$0.5 million of the 1998 restructuring reserve for other fixed asset related charges that were no longer considered necessary. During fiscal 1999, Cypress reversed \$0.7 million of the 1996 restructuring reserve related to fixed asset de-installation charges that were no longer required.

1998 Restructuring and Other Non-Recurring Costs

During 1998, Cypress implemented an overall cost reduction plan and recorded a \$58.9 million restructuring reserve. The restructuring entailed:

- o The shutdown of Fab 3, located in Bloomington, Minnesota and consolidation of parts of Fab 3 operations with other operations of Cypress.
- o The discontinuance of the 0.6 micron 256k SRAM production in Fab 2 located in Texas.

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- o The conversion of an existing research and development fab located in San Jose (Fab 1) to eight-inch capability in order to be compatible with the state of the art eight-inch Minnesota manufacturing facility.
- o The transfer of Cypress's test operations from its subcontractor, Alphatec, in Thailand to Cypress's production facility in the Philippines.

The restructuring activities described above included the termination of approximately 850 employees, primarily from manufacturing, both at Cypress and at Alphatec.

Separate from the restructuring charge, Cypress recorded additional charges of \$27.3 million, which were recorded as operating expenses in the first quarter of 1998. These charges were for inventory reserves (\$15.8 million), the write-off of pre-operating costs (\$3.8 million), the write-off of an equity investment (\$3.1 million), costs incurred to reimburse a customer for certain product expenses incurred (\$2.5 million) and the write-off of obsolete equipment in Fab 4 (\$2.1 million). The write-down of inventory was made to establish incremental reserves for excess inventory and was recorded as cost of revenues.

The write-off of pre-operating costs included \$2.9 million related to Cypress's wafer fabrication operation in Bloomington, Minnesota and \$0.9 million related to its assembly and test operation in the Philippines. As a result of restructuring activities, Cypress wrote off its previously capitalized pre-operating costs as an impaired asset due to uncertainties surrounding their future economic benefits. These costs were written off to cost of revenues. There were no capitalized pre-operating costs subsequent to the first quarter of 1998.

The \$3.1 million write-off of the equity investment was recorded against net interest and other income to reflect the decline in the value of an investment. Selling, general and administrative costs included the write-off of \$2.5 million in costs incurred to reimburse a customer for certain product expenses incurred. During Cypress's periodic review of equipment, some equipment

was identified as obsolete and \$2.1 million was charged to cost of revenues to write-off the obsolete equipment.

The following tables sets forth charges taken against the reserve during fiscal 1999 and restructuring expense and charges taken from the date the restructuring commenced through January 2, 2000.

	Balance January 3, 1999 -----	Utilized -----	Other -----	Balance January 2, 2000 -----
	(In thousands)			
Severance and other employee related charges(1)	\$ 2,309	\$ (54)	\$ (2,255)	\$ --
Other fixed asset related charges(1)	3,030	(703)	(520)	1,807
Provision for phase-down and consolidation of manufacturing facilities(1)	339	--	(339)	--
	-----	-----	-----	-----
Total	\$ 5,678	\$ (757)	\$ (3,114)	\$ 1,807
	=====	=====	=====	=====

	1998 Restructuring Expense -----	Utilized -----	Other -----	Balance January 2, 2000 -----
	(In thousands)			
Write-down of inventory(1)	\$ 3,250	\$ (3,250)	\$ --	\$ --
Severance and other employee related charges(2)	5,334	(2,234)	(3,100)	--
Other fixed asset related charges(1)	3,030	(703)	(520)	1,807
Provision for phase-down and consolidation of manufacturing facilities(1)	976	(637)	(339)	--
	-----	-----	-----	-----
Total	\$12,590	\$ (6,824)	\$ (3,959)	\$ 1,807
	=====	=====	=====	=====

(1) Classified on the Balance Sheet as part of accrued liabilities.

(2) The amount utilized represents cash payments related to severance of approximately 850 employees.

During fiscal 1999, Cypress reversed \$3.7 million of previously provided restructuring costs. \$2.2 million of severance and other employee related charges and \$0.3 million for the provision for phase-down and consolidation of manufacturing facilities were reversed in conjunction with the completion of the Alphatec restructuring activities. \$0.5 million was reversed for other fixed asset related charges based on the determination that a portion of the fixed asset removal costs accrual would not be required. These reversals related to Cypress's 1998 restructuring activities. Cypress also reversed a \$0.7 million reserve for fixed asset installation costs related to its 1996 restructuring activities which was no longer required. In fiscal 1999, Cypress utilized \$0.8 million, primarily

associated with the removal cost of equipment identified as part of the restructuring.

Restructuring activities associated with Fabs 2 and 3 were completed in May and July 1998, respectively, consistent with Cypress's restructuring schedule except for the disposal of equipment. Fab 1 restructuring was not completed in January 1999 as originally planned. Cypress has initiated plans to convert its R&D wafer facility in San Jose to eight-inch capability and expects to have the conversion completed by June 2000. The Alphatec consolidation and transfer activity was completed in January 1999, one month later than originally planned.

1997 Restructuring Costs - Cypress (ICW)

During the fiscal 1997, Cypress made a decision to shut down its wafer fab located in San Jose. In connection with the shut down of the wafer fab, Cypress recorded a restructuring charge of \$9.9 million related to the impairment of assets (\$3.9 million), non-cancelable operating lease commitments (\$3.6 million), costs associated with a reduction in work force (\$0.2 million) and other transaction costs (\$2.2 million). The other transaction costs related primarily to inventory write-offs, expenses incurred to remove and return leased equipment and brokerage and professional fees. The actual liquidation of substantially all of the impaired assets was completed in November 1998. The balance of the reserve remaining is expected to be utilized by March 2000 when the operating lease commitment ends.

The following tables sets forth charges taken against the reserve during fiscal 1999 and restructuring expense and charges taken from the date the restructuring commenced through January 2, 2000.

	Balance January 3, 1999 -----	Utilized -----	Balance January 2, 2000 -----
		(In thousands)	
Operating lease costs	\$ 2,332	\$ (1,826)	\$ 506
Severance costs	60	(60)	--
	-----	-----	-----
Total	\$ 2,392	\$ (1,886)	\$ 506
	=====	=====	=====

	1997 Restructuring Expense -----	Utilized -----	Balance January 2, 2000 -----
		(In thousands)	
Operating lease costs	\$ 3,615	\$ (3,109)	\$ 506
Severance costs	207	(207)	--
Transaction and other costs	2,164	(2,164)	--
	-----	-----	-----
Total	\$ 5,986	\$ (5,480)	\$ 506
	=====	=====	=====

In November 1997, Cypress also borrowed \$2.0 million from Maxim with interest accruing at 6% per annum. The note and interest are to be repaid at the earlier of: a majority sale of Cypress, the consummation of a public offering of Cypress common stock, or four years from the date of the note (November 2001). In addition, Cypress entered into a wafer purchase agreement with Maxim that allows Cypress to buy BiCMOS wafers from Maxim for a period of up to two years.

On the closing date of the transaction, November 20, 1997, Maxim purchased Cypress six-inch wafer fabrication leasehold improvements and manufacturing equipment as well as certain five-inch wafer fabrication equipment, which Cypress owned or acquired through capital leases. The carrying values of the six-inch and five-inch fabrication assets were \$14.25 million and \$0.4 million, respectively. Proceeds of the sale of these assets to Maxim were \$12.5 million to Cypress.

The following table summarizes the disposition of the six-inch and five-inch fabrication assets held by Cypress through December 29, 1997.

	Six-inch Assets -----	Five-inch Assets -----
	(In thousands)	
Carrying value of assets prior to recognition of impairment loss	\$29,500	\$6,000
Recognition of impairment	(15,250)	(3,896)
Sale of assets to Maxim	(14,250)	(400)
Addition asset impairment	--	(551)
	-----	-----
Total assets.....	\$ --	\$1,153
	=====	=====

Substantially all the assets held at December 29, 1997 were sold prior to January 2, 2000.

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Note 5: Equity and Debt Transactions

During fiscal 1999, Cypress filed a registration statement on Form S-3 with the Securities and Exchange Commission. Under this shelf registration, Cypress could through March 2001 sell any combination of debt securities, preferred stock and common stock in one or more offerings up to a total amount of \$300.0 million dollars. The entire amount of this shelf registration statement has been used by the transactions described in this paragraph. On January 19, 2000, Cypress completed a \$283.0 million registered-placement of 5-year Convertible Subordinated Notes. The notes are due in the year 2005, with a coupon rate of 4.00% and an initial conversion premium of 28.5%. The notes are convertible into approximately 6.1 million shares of common stock and are callable by Cypress no earlier than February 5, 2003. Net proceeds were \$275.2 million, after issuance costs of \$7.8 million. Pursuant to the shelf registration, on March 29, 1999, Cypress sold 7.2 million shares of common stock. Cypress received approximately \$33.8 million in proceeds, net of issuance costs, from the sale of these shares. The remaining 2.5 million shares were sold by selling stockholders. Cypress did not receive any proceeds from the shares sold by the selling stockholders.

In March 1999, Cypress announced a program whereby all U.S. employees were offered loans to facilitate the exercise of vested stock options. Under the terms of the program, only options which were vested as of March 1, 1999 and whose exercise price was less than or equal to \$9.75 could qualify for a loan. The loans, including interest, are due at the earlier of three days following the sale of the shares, within thirty days of the date the individual ceases to be an employee of Cypress or 3 years from the grant date of the loan. The loans bear interest and are secured by full recourse. At January 2, 2000, loans receivable and accrued interest under this program totaled \$8.2 million.

In fiscal years 1997 and 1998, the Board of Directors authorized the repurchase of up to 14.0 million shares of Cypress's common stock. Through January 3, 1999, 8.1 million shares had been repurchased under this entire program for \$67.5 million. On February 25, 1999, the Board of Directors terminated the stock repurchase program. The unsold repurchased shares were and are expected to continue to be used for option exercises under Cypress's 1994 Stock Option Plan and stock purchases under the Employee Stock Purchase Plan. During 1998, Cypress reissued 1.8 million shares of common stock under such plans. During fiscal 1999, Cypress reissued a total of 8.3 million shares in relation to the stock offering described above and in conjunction with the 1994 Stock Option Plan and Employee Purchase Plan. Such shares had been repurchased under the 1997/1998 repurchase programs as well as repurchase programs prior to 1997.

Convertible Subordinated Notes

In 1998, Cypress retired a total of \$15.0 million principal of its \$175.0 million, 6.0% Convertible Subordinated Notes ("Notes") for \$12.9 million, resulting in a pre-tax net gain of \$1.7 million. The gain was offset by the write-off of bond issuance costs of \$0.4 million (pre-tax). The net gain was recorded as interest and other income. The Notes, which were issued in September 1997, are due October 1, 2002 and contain a coupon rate of 6.0% and an initial conversion premium of 48.2%. The remaining outstanding Notes are convertible into approximately 6,772,000 shares of common stock and are callable by Cypress on or after October 2, 2000. The Notes are unsecured subordinated obligations.

In February 1997, Cypress called for redemption of all of the 3.15% Convertible Subordinated Notes which was effective as of March 26, 1997. At the time of conversion, approximately 85% of the holders elected to convert their notes into Cypress's common stock, increasing the amount of common stock outstanding by 6,789,013 shares. As a result of holders electing the cash settlement, Cypress paid out \$14.3 million.

Notes Payable

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During 1997, Cypress entered into an agreement to borrow \$2.0 million from a third party with interest accruing at 6.0% per annum. The loan was repaid in April 1999. Also during 1997, Cypress issued promissory notes to three significant customers for \$2.0 million, \$1.4 million and \$0.3 million, bearing interest at 6.0%, 10.0% and 7.5%, respectively and due in October 2000, August 2000 and July 1999, respectively. As of January 2, 2000, a total of \$0.7 million was payable under the notes.

Line of Credit

In 1997, Cypress established a revolving line of credit with a bank totaling up to \$6.5 million. Cypress cancelled this line of credit in June 1999.

In July 1996, Cypress established a three-year \$100.0 million unsecured revolving credit facility with Bank of America National Trust and Savings Association as agent on behalf of certain banks. In 1998, Cypress cancelled this line of credit.

Note 6: Earnings (Loss) Per Share

As required by SFAS 128, following is a reconciliation of the numerators and the denominators of the basic and diluted earnings (loss) per share computation:

	1999			1998			1997		
	Income	Shares	Per-Share Amount	Loss	Shares	Per-Share Amount	Income	Shares	Per-Share Amount
	(In thousands, except per-share amounts)								
Basic EPS:									
Net income (loss)	\$ 91,054	104,703	\$0.87	\$(104,918)	101,944	\$(1.03)	\$ 7,526	100,137	\$0.08
Effects of dilutive securities:									
Stock options ...	--	7,032		--	--		--	7,729	
Diluted EPS:									
Net income (loss)	\$ 91,054	111,735	\$0.81	\$(104,918)	101,944	\$(1.03)	\$ 7,526	107,866	\$0.07

At January 2, 2000, January 3, 1999 and December 29, 1997, options to purchase 47,000, 24,774,000 and 5,696,000 shares, respectively, of common stock were outstanding, but were excluded in the computation of diluted EPS as their effect was anti-dilutive. Convertible debentures outstanding at January 2, 2000, January 3, 1999 and December 29, 1997 convertible to 6,772,000, 6,772,000 and 7,408,000 shares, respectively, of common stock were also excluded from diluted EPS as their effect was anti-dilutive.

Note 7: Common Stock Option and Other Employee Benefit Plans

1999 and 1994 Stock Option Plans

In 1999, Cypress adopted the 1999 Stock Option Plan ("The Plan"). Under the terms of the Plan, options may be granted to qualified employees of acquired companies and consultants of Cypress or its majority-owned subsidiaries. Options become exercisable over a vesting period as determined by the Board of Directors and expire over terms not exceeding ten years from the date of grant. The option price for shares granted, under the Plan, is typically equal to the fair market value of the common stock at the date of grant.

In 1994, Cypress adopted the 1994 Stock Option Plan, which replaced Cypress's 1985 Incentive Stock Option Plan and the 1988 Directors' Stock Option Plan (the "Terminated Plans") with respect to future option grants. Under the terms of the 1994 Stock Option Plan, options may be granted to qualified employees, consultants, officers and directors of Cypress or its majority-owned subsidiaries. Options become exercisable over a vesting period as determined by the Board of Directors and expire over terms not exceeding twenty years from the date of grant. The option price for shares granted, under the 1994 Stock Option Plan, is typically equal to the fair market value of the common stock at the date of grant. The 1994 Stock Option Plan includes shares that remained available under the Terminated Plans and provides for an annual increase in

shares available for issuance pursuant to non-statutory stock options equal to 4.5% of Cypress's outstanding common stock at the end of each fiscal year.

In January 1998, substantially all outstanding stock options with an exercise price in excess of \$9.75 per share were cancelled and replaced with new options having an exercise price of \$9.75 per share, the fair market value on the date that the employees accepted the repricing. A total of 10,464,000 shares were repriced. This repricing excluded the Board of Directors, the Chief Executive Officer and the Executive staff of Cypress.

The following table summarizes Cypress's stock option activity and related weighted average exercise price for each category for the years ended January 2, 2000, January 3, 1999 and December 29, 1997. The weighted average exercise price for each category presented is also shown in the table below.

Shares Under the 1994 and 1999 Stock Option Plan

	1999		1998		1997	
	Shares	Price	Shares	Price	Shares	Price
	(In thousands except per-share amounts)					
Options outstanding, beginning of year.....	26,515	\$ 8.29	23,923	\$ 9.27	22,172	\$ 8.54
Options cancelled	(2,011)	9.99	(13,862)	11.24	(1,903)	8.83
Options granted	8,626	17.48	17,593	9.12	6,618	10.73
Options exercised	(7,766)	7.62	(1,139)	5.30	(2,964)	7.18
Options outstanding, end of year	25,364	11.48	26,515	8.32	23,923	9.27
Options exercisable at January 2, 2000	9,574	\$ 8.57				

All options were granted at an exercise price equal to the market value of Cypress's stock at the date of grant. The weighted average estimated fair value at the date of grant, as defined by SFAS 123, for options granted in 1999, 1998 and 1997 was \$8.98, \$3.61 and \$5.06 per option, respectively. The estimated grant date fair value is calculated using the Black-Scholes model. The Black-Scholes model, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from Cypress's stock option awards. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated grant date fair value.

The following weighted average assumptions are included in the estimated grant date fair value calculations for Cypress's stock option awards:

	1999	1998	1997
Expected life	7 years	7 years	6 years
Risk-free interest rate	5.76%	5.41%	6.63%
Volatility5668	.5467	.5529
Dividend yield	0.00%	0.00%	0.00%

Significant option groups outstanding as of January 2, 2000 and the related weighted average exercise price and contractual life information, are as follows:

Options with exercise prices range from	Outstanding		Exercisable		Remaining Life (years)
	Shares	Price	Shares	Price	
	(In thousands except per-share amounts)				
\$ 1.00-- \$ 8.25.....	4,239	\$ 4.45	2,600	\$ 4.40	5.57
\$ 8.26-- \$ 9.00.....	4,277	\$ 8.51	1,769	\$ 8.50	7.64
\$ 9.01-- \$ 9.74.....	1,610	\$ 9.39	315	\$ 9.28	7.89
\$ 9.75-- \$ 9.75.....	5,748	\$ 9.75	3,344	\$ 9.75	6.73
\$ 9.76-- \$17.50.....	4,345	\$11.94	1,327	\$11.63	7.22

\$17.51-- \$29.25..... 5,145 \$21.95 219 \$21.21 9.72

Employee Qualified Stock Purchase Plan

In 1986, Cypress approved an Employee Qualified Stock Purchase Plan ("ESPP"), which allows eligible employees of Cypress and its subsidiaries to purchase shares of common stock through payroll deductions. The ESPP consists of consecutive 24-month offering periods composed of four 6-month exercise periods. The shares can be purchased at the lower of 85% of the fair market value of the common stock at the date of commencement of this two-year offering period or at the last day of each 6-month exercise period. Purchases are limited to 10% of an employee's eligible compensation, subject to a maximum annual employee contribution limited to a \$25,000 market value (calculated as the employee's enrollment price multiplied by the number of purchased shares). Of the 11,373,000 shares authorized under the ESPP, 7,320,000 shares were issued through 1999 including 953,000, 890,000 and 541,000 shares in 1999, 1998, and 1997, respectively.

Compensation costs (included in pro forma net income and net income per share amounts) for the grant date fair value, as defined by SFAS 123, of the purchase rights granted under the ESPP were calculated using the Black-Scholes model. The following weighted average assumptions are included in the estimated grant date fair value calculations for rights to purchase stock under the ESPP:

	1999	1998	1997
	----	----	----
Expected life.....	6 months	6 months	6 months
Risk-free interest rate...	5.94%	5.94%	5.80%
Volatility.....	.5773	.5773	.5861
Dividend yield.....	0.00%	0.00%	0.00%

The weighted average estimated grant date fair value, as defined by SFAS 123, or rights to purchase stock under the ESPP granted in 1999, 1998 and 1997 were \$7.50, \$2.56 and \$5.49 per share, respectively.

Pro Forma Net Income (Loss) and Net Income (Loss) Per Share

If Cypress had recorded compensation costs based on the estimated grant date fair value, as defined by SFAS 123, for awards granted under its 1994 Stock Option Plan, its 1999 Stock Option Plan and its Employee Stock Purchase Plan, Cypress's pro forma net income (loss) and earnings per share for the years ended January 2, 2000, January 3, 1999 and December 29, 1997 would have been as follows:

	1999	1998	1997
	----	----	----
	(In thousands, except per-share amounts)		
Pro forma net income (loss):			
Basic	\$ 58,849	\$ (135,907)	\$ (17,545)
Diluted	\$ 58,849	\$ (135,907)	\$ (17,545)
Pro forma net income (loss) per share:			
Basic	\$ 0.56	\$ (1.34)	\$ (0.18)
Diluted	\$ 0.53	\$ (1.34)	\$ (0.18)

The pro forma effect on net income (loss) and net income (loss) per share for 1999, 1998 and 1997 is not representative of the pro forma effect on net income in the future years because it does not take into consideration pro forma compensation expense related to grants prior to 1995.

Deferred Compensation

Cypress recorded a provision for deferred compensation of approximately \$1,638,000 for the difference between the grant or issuance price and the deemed fair value for financial reporting purposes of certain Cypress common stock options granted or common stock issued in fiscal year ended January 3, 1999. These amounts are being amortized over the vesting period of the individual stock options or stock, generally a period of four to five years. The deferred compensation expense provision was reduced by approximately \$263,000 in fiscal 1997, representing an unvested portion of deferred compensation expense for

wafer fabrication employees terminated in fiscal 1998 upon the sale to Maxim. Deferred compensation expense, which was recognized, totaled approximately \$668,000, \$653,000 and \$191,000 in fiscal years 1999, 1998 and 1997, respectively.

Other Employee Benefit Plans

Cypress also maintains a Section 401(k) Plan, New Product Bonus Plan, Key Employee Bonus Plan and Deferred Compensation Plan. The 401(k) Plan provides participating employees with an opportunity to accumulate funds for retirement and hardship. Eligible participants may contribute up to 15% of their eligible earnings to the Plan Trust. Cypress does not make contributions to the plan.

Under the New Product Bonus Plan, which started in 1997, all qualified employees are provided bonus payments based on Cypress attaining certain levels of new product revenue, plus attaining certain levels of profitability. In 1999, 1998 and 1997, \$6.9 million, \$0.7 million and \$0.5 million, respectively were charged to operations in connection with the New Product Bonus Plan.

In 1994, a Key Employee Bonus Plan was established, which provides for bonus payments to selected employees upon achievement of certain Cypress and individual performance targets. In 1999 and 1998, \$4.9 and \$4.1 million, respectively, were charged to operations in connection with this Plan. In 1997, there were no charges to operations in connection with this Plan. Employees eligible under the Key Employee Bonus Plan can elect to participate in the Deferred Compensation Plan, which allows

eligible employees to defer their salary, bonus and other related payments. Costs incurred by Cypress for the Deferred Compensation Plan during fiscal years 1999, 1998 and 1997 were insignificant.

Note 8: Income Taxes

The components of the provision for income taxes are summarized below. Income before taxes is principally attributed to domestic operations.

Components of the Provision for Income Taxes

	January 2, 2000 -----	January 3, 1999 -----	December 29, 1997 -----
	(In thousands)		
Income (loss) before provision for taxes	\$ 95,871	\$ (118,441)	\$ 13,139
Current tax expense:			
U.S. Federal	13,913	\$ (13,237)	\$ (10,483)
State and local	115	--	1,418
Foreign	760	511	500
Total current	14,788	(12,726)	(8,565)
Deferred tax expense (benefit):			
U.S. Federal	(9,971)	(4,210)	16,033
State and local	--	3,413	(1,855)
Total deferred	(9,971)	(797)	14,178
Total	\$ 4,817	\$ (13,523)	\$ 5,613
	=====	=====	=====

The tax provision (benefit) differs from the amounts obtained by applying the statutory U.S. Federal Income Tax Rate to income before taxes as shown below.

Tax Provision Difference

	January 2, 2000	January 3, 1999	December 29, 1997
	-----	-----	-----
	(In thousands)		
Statutory rate	35%	35%	35%
Tax at U.S. statutory rate	\$ 33,554	\$ (41,454)	\$ 4,599
Foreign earnings	(11,442)	(4,153)	(1,151)
State income taxes, net of federal benefit	114	3,413	922
Tax credits	(9,568)	(3,700)	(2,274)
Net Foreign Sales Corporation (FSC) benefit	(265)	--	(78)
Benefit of tax free investments	(80)	(350)	(482)
Current year loss with no benefit	--	18,498	3,812
Utilization of net operating loss	(8,968)	(1,740)	--
Future benefits not recognized	--	15,900	--
Acquisition costs	4,324	--	--
Income of acquired companies previously taxed	(2,611)	--	--
Other, net	(241)	(805)	265
F/S discrepancy	--	868	--
	-----	-----	-----
Total	\$ 4,817	\$ (13,523)	\$ 5,613
	=====	=====	=====

The components of the net deferred tax assets at January 2, 2000 and January 3, 1999, under SFAS 109 were as follows:

	January 2, 2000	January 3, 1999
	-----	-----
	(In thousands)	
Deferred tax assets:		
Deferred income on sales to distributors	\$ 16,185	\$ 11,024
Inventory reserves and basis differences	7,136	15,928
Restructuring and legal reserves	22,804	2,161
Asset valuation and other reserves	10,562	26,564
State tax, net of federal tax	(48)	420
Research and development tax credits	25,702	9,204
Net operating loss	4,839	41,330
Intangibles arising from acquisitions	12,093	--
Other, net	5,931	1,942
	-----	-----
Total deferred tax assets	105,204	108,573
	-----	-----
Deferred tax liabilities:		
Excess of tax over book depreciation	(43,900)	(39,856)
Intangibles arising from acquisitions	(12,093)	--
Other, net	(107)	(1,209)
	-----	-----
Total deferred tax liabilities	(56,100)	(41,065)
	-----	-----
Net deferred tax asset	49,104	\$ 67,508
Valuation allowance	(39,133)	(67,508)
	-----	-----
Net deferred tax assets (liabilities) after valuation allowance	\$ 9,971	\$ --
	=====	=====

A \$13.8 million tax benefits associated with disqualifying dispositions of stock options and employee stock purchase plan shares was realized in 1999. There were no tax benefits associated with disqualifying dispositions of stock options or employee stock purchase plan shares realized in 1998.

During 1998, the United States Internal Revenue Service began an examination of tax returns for fiscal years 1994 through 1996. The examination is expected to continue through May 2000. Management believes that no material adjustments will ultimately result from this examination.

Other current assets include current deferred tax assets of \$10.0 million at January 2, 2000. Other assets include deferred tax assets of \$9.8 million at January 2, 2000. There were no deferred tax assets as of January 3, 1999.

Note 9: Commitments and Contingencies

Operating Lease Commitments

Cypress leases most of its manufacturing and office facilities under non-cancelable operating lease agreements that expire at various dates through 2012. These leases require Cypress to pay taxes, insurance, and maintenance expenses, and provide for renewal options at the then fair market rental value of the property.

In April 1997, Cypress sold capital equipment located in its Minnesota wafer fabrication facility to Fleet Capital Leasing ("Fleet") in a sale-leaseback agreement. In October 1997, Cypress entered into a similar agreement with Comdisco, Inc. ("Comdisco") for other capital equipment located in Minnesota. Cypress received a total of \$28.2 million from Fleet and Comdisco in exchange for the capital equipment and as a result of the transactions, recorded an immaterial gain that is being amortized over the life of the leases.

In 1994 and 1995, Cypress entered into three operating lease agreements with respect to its office and manufacturing facilities, in San Jose and Minnesota, respectively. In April 1996, Cypress entered into an additional lease agreement related to two office facilities in San Jose. These agreements require quarterly payments that vary based on the London Interbank Offering Rate ("LIBOR"), plus a spread. All leases provide Cypress with the option of either acquiring the property at its original cost or arranging for the property to be acquired at the end of the respective lease terms. Cypress is contingently liable under certain first-loss clauses for up to \$52.7 million at January 3, 1999. First loss clauses state that Cypress is potentially liable for any decline in the value of the property up to a specified percentage. The purchase option then permits Cypress to acquire the property at the lower value. Based on management's estimate of the fair value of the properties, no liability was required to be recorded at January 2, 2000, January 3, 1999 or December 29, 1997. Furthermore, Cypress is required to maintain a specific level of restricted cash or investments to serve as collateral for these leases and maintain compliance with certain financial covenants. As of January 2, 2000, the amount of restricted investments recorded was \$61.2 million, which is in compliance with these agreements. These restricted cash or investments are classified as non-current on the balance sheet.

The aggregate annual rental commitments under non-cancelable operating leases as of January 2, 2000 are as follows:

Fiscal Year (In thousands)	
2000	\$23,892
2001	11,168
2002	8,333
2003	8,093
2004	4,730
2005 and thereafter	--

Total	\$56,216
	=====

Rental expense was approximately \$18.0 million in 1999, \$21.9 million in 1998 and \$17.2 million in 1997.

Litigation and Asserted Claims

The semiconductor industry has experienced a substantial amount of litigation regarding patent and other intellectual property rights. From time to time, Cypress has received, and may receive in the future, communications alleging that its products or its processes may infringe on product or process technology rights held by others. Cypress is currently, and may in the future be, involved in litigation with respect to alleged infringement by Cypress of another party's patents. In the future, Cypress may be involved with litigation to:

- o Enforce its patents or other intellectual property rights.
- o Protect its trade secrets and know-how.
- o Determine the validity or scope of the proprietary rights of others.
- o Defend against claims of infringement or invalidity.

Such litigation has in the past and could in the future result in substantial costs and diversion of management resources. Such litigation could also result in payment of substantial damages and/or royalties or prohibitions against utilization of essential technologies, and could have a material adverse effect on Cypress's business, financial condition and results of operations.

During 1998, EMI Group of North America, Inc. ("EMI") filed suit against Cypress in the Federal Court in Delaware, claiming that Cypress infringed on four patents owned by EMI. Cypress and EMI entered into a license agreement in February 1999, for one of the four patents in the lawsuit. EMI then withdrew two of the four patents from the lawsuit, including the patent related to the licensing agreement. The case involving the remaining two patents went to trial in October 1999. The jury ruled in favor of Cypress, finding that none of the patent claims was infringed by Cypress and that each asserted claim was invalid due to physical impossibility (i.e., the patents require a step that is physically impossible to perform) and prior art (i.e., assuming it is possible to perform the impossible step, the prior art would have also performed it). EMI may file an appeal, although no such appeal has been filed as of February 25, 2000. Should EMI appeal the decision of the Federal Court, Cypress intends to defend itself vigorously. However, should the outcome of this action be unfavorable, Cypress's business, financial condition and results of operations could be materially and adversely affected.

In January 1998, an attorney representing the estate of Mr. Jerome Lemelson contacted Cypress and charged that Cypress infringed certain patents owned by Mr. Lemelson. On February 26, 1999, the Lemelson attorneys sued Cypress and 87 other companies for infringement of 16 patents. Cypress has reviewed and investigated the allegations in the complaint and Cypress believes that the suits are without merit. Cypress will vigorously defend itself in this matter. While no assurance can be given regarding the outcome of this action, Cypress believes that the final outcome of the matter will not have a material effect on Cypress's consolidated financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of this action be unfavorable, Cypress may be required to pay damages and other expenses, which could have a material adverse effect on Cypress's financial position and results of operations.

In June 1997, Cypress commenced a declaratory judgment action in the United States District Court for the District of Nevada against the Li Second Family Trust ("the Trust"). In this action, Cypress asked for declaratory relief to the effect that a U.S. patent relating to a part of the process for manufacturing semiconductors is unenforceable, invalid and not infringed by Cypress. The Trust has counter-claimed for patent infringement on the same patent, alleging such patent covers oxide-isolated integrated circuits. In May 1999, in a related case, the United States District Court for the Eastern District of Virginia ruled that the patent is unenforceable due to inequitable conduct by Dr. Li and his attorneys in obtaining the patent. Cypress believes it has meritorious defenses to the counter-claim and intends to defend itself vigorously. While no assurance can be given regarding the final outcome of this action, Cypress believes that the final outcome of the matters will not have a material effect on Cypress's consolidated financial position or results of operations. However, should the outcome of this action be unfavorable, Cypress's business, financial condition and results of operations could be materially and adversely affected.

On October 2, 1997, Cypress filed an action against Kevin Yourman, Joseph Weiss, and their associated law offices in the Superior Court of California ("Superior Court") in Santa Clara County for malicious civil prosecution in the underlying securities fraud actions initiated by Messrs. Yourman and Weiss in 1992. The underlying securities fraud actions were dismissed because no officer of Cypress made any actionable false or misleading statements or omissions. An appeal affirmed the lower court's finding that Messrs. Yourman and Weiss failed to put forth evidence showing a genuine issue of fact with regard to any statements by Cypress's officers. On May 4, 1999, the Superior Court granted a summary judgment motion by Messrs. Yourman and Weiss, holding that Messrs. Yourman and Weiss had probable cause to bring the underlying litigation. Cypress is appealing the decision. However, the results of litigation are unpredictable.

Cypress believes that this action, regardless of its outcome, will have little, if any effect on Cypress's

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consolidated financial position or results of operations.

Purchase Commitments

At January 2, 2000, Cypress had purchase commitments aggregating \$192.0 million, principally for manufacturing equipment and facilities. These commitments relate to purchases to be made in 2000 and beyond. Commitments for 2000 purchases will be funded through a combination of cash resources, retirement of investments and the \$283.0 million 4.0% Convertible Subordinated Notes (See Note 12).

Note 10: Related Parties

Between 1992 and 1995, Cypress made cost-basis investments in QuickLogic Corporation ("QuickLogic") Series D and Series E preferred stock. In June 1996, Cypress received \$4.5 million from QuickLogic, the original intent of which was to obtain a minority interest in CTI and to secure guaranteed fab capacity. Cypress classified the \$4.5 million as other long-term liabilities in 1996, awaiting final negotiation of the terms and transaction approval from Altera, an existing minority interest shareholder. In March 1997, Cypress signed a definitive agreement with QuickLogic Corporation involving termination of an existing joint development, licensing and foundry agreement for antifuse Field Programmable Gate Array ("FPGA") products and the execution of a new foundry agreement. Under the new agreement, Cypress ceased development, marketing and selling of antifuse-based FPGA products. In return, QuickLogic paid \$4.5 million, which represented \$3.5 million of NRE revenue related to the sale of technology rights and \$1.0 million of compensation for inventory and other assets, and issued shares of QuickLogic common stock that increased Cypress's equity position in the privately-held QuickLogic to greater than 20%. Cypress also entered into a five-year wafer-supply agreement to provide FPGA products to QuickLogic. Revenues and net income contributed by the FPGA product line during 1997 and was not significant.

In the first quarter of 1998, due to QuickLogic's history of recording losses, Cypress determined that its investment in QuickLogic had declined in value and the decline in value was not temporary. Accordingly, Cypress wrote-off its investment in QuickLogic to reflect this decline. During the second half of 1998 and throughout 1999, due to the resurgence in the semiconductor industry, QuickLogic began recording profits. In October 1999, QuickLogic announced its initial public offering. Cypress sold its investment in QuickLogic in October 1999 and as a result, recorded a \$36.2 million gain.

Cypress recorded sales to QuickLogic of \$7.1 million, \$2.3 million and \$11.7 million in 1999, 1998 and 1997, respectively. At fiscal year-ends 1999 and 1998, Cypress had a receivable due from QuickLogic of \$0.9 and \$0.6 million, respectively.

During 1990, Cypress made a cost-basis investment of \$1.0 million in Vitesse Semiconductor stock. Cypress sold its remaining investment in February 1997 and recorded a gain of \$3.8 million in other income.

Note 11: Segment Information

Cypress has two reportable segments, Memory Products and Non-memory Products. The Memory Products segment includes Static Random Access Memories ("SRAMs") and multichip modules. The Non-memory Products segment includes programmable logic products, data communication devices, computer products, non-volatile memory products and wafers manufactured by the foundry.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1). Cypress evaluates the performance of its two segments based on profit or loss from operations before income taxes, excluding nonrecurring gains and losses.

Cypress's reportable segments are strategic business units that offer different products. Products that fall under the two segments differ in nature, are manufactured utilizing different technologies and have a different

end-purpose. As such, they are managed separately. Memory Products are characterized more as a commodity, which is depicted by high unit sales volume and lower gross margins. These products are manufactured using more advanced technology. A significant portion of the wafers produced for Memory Products are manufactured at Cypress's technologically advanced, eight-inch wafer production facility located in Minnesota (Fab 4). Memory Products are used by a variety of end-users but the product is used specifically for the storage and retrieval of information. In contrast to Memory Products, unit sales of non-Memory Products are generally lower than Memory Products, but sell at higher gross margins. Some Non-memory Products are manufactured utilizing less technologically advanced processes. A majority of wafers for

Non-memory Products are manufactured at Cypress's less technologically advanced six-inch Fab located in Texas (Fab 2). Products in the Non-memory segment perform non-memory functions such as floating-point mathematics, store fixed data that is not to be altered during normal machine operations and data transfer and routing functions of signals throughout a computer system.

The tables below set forth information about the reportable segments for fiscal years 1999, 1998 and 1997. Cypress does not allocate income taxes or non-recurring items to segments. In addition, segments do not have significant non-cash items other than depreciation and amortization in reported profit or loss.

Business Segment Net Revenues

	1999 -----	1998 -----	1997 -----
		(In thousands)	
Memory	\$269,686	\$195,929	\$226,566
Non-memory	435,801	358,962	371,919
	-----	-----	-----
Total consolidated revenues	\$705,487	\$554,891	\$598,485
	=====	=====	=====

Business Segment Profit (Loss)

	1999 -----	1998 -----	1997 -----
		(In thousands)	
Memory	\$ (21,691)	\$ (94,781)	\$ (35,742)
Non-memory	108,326	34,997	54,132
Restructuring and other non-recurring (costs) benefits	(33,812)	(60,737)	(9,882)
Interest income and other	52,665	13,356	13,092
Interest expense	(9,617)	(11,276)	(8,461)
	-----	-----	-----
Income (loss) before provision for income taxes	\$ 95,871	\$ (118,441)	\$ 13,139
	=====	=====	=====

Business Segment Depreciation

Depreciation by segment for the respective years was:

	1999 -----	1998 -----	1997 -----
		(In thousands)	
Memory	\$ 66,164	\$ 86,905	\$ 77,420
Non-memory	41,259	27,693	36,593
	-----	-----	-----
Total consolidated depreciation	\$107,423	\$114,598	\$114,013
	=====	=====	=====

Geographic Area

Revenues are attributed to countries based on the customer location. Revenues by geographic locations were:

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
United States	\$345,185	\$307,938	\$363,709
Europe	130,484	91,544	99,051
Japan	67,603	51,902	53,701
Other foreign countries	162,215	103,507	82,024
	-----	-----	-----
Total revenues	\$705,487	\$554,891	\$598,485
	=====	=====	=====

Assets by geographic locations were:

	1999	1998	1997
	-----	-----	-----
	(In thousands)		
United States	\$275,553	\$276,770	\$373,273
Philippines	77,426	69,996	67,629
Other foreign countries	4,204	2,170	2,877
	-----	-----	-----
Total assets	\$357,183	\$348,936	\$443,779
	=====	=====	=====

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Note 12: Subsequent Events

On March 2, 2000, Cypress completed the merger with Galvantech, Inc. ("Galvantech"), which will be accounted for as a pooling of interests. The agreement provides for Cypress to issue up to 3.6 million shares in exchange for all outstanding stock and options of Galvantech. The fiscal years of Cypress and Galvantech were different and Galvantech has changed its fiscal periods to coincide with that of Cypress. Galvantech specializes in niche, ultra-high performance memories for data communications applications.

On January 31, 2000, Cypress filed a universal shelf registration statement with the Securities and Exchange Commission (SEC). The registration statement, when effective, will allow Cypress to market and sell up to \$400.0 million of its securities. The shelf registration statement will allow Cypress flexibility to raise funds from the offering of debt securities, common stock, or a combination thereof, subject to market conditions and Cypress's capital needs.

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REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity, and of cash flows present fairly, in all material respects, the financial position of Cypress Semiconductor Corporation and its subsidiaries at January 2, 2000 and January 3, 1999, and the results of their operations and their cash flows for each of the three years in the period ended January 2, 2000, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Quarterly Financial Data
 (In thousands, except per share data)

	Three Months Ended			
	Jan. 2, 2000	Oct 3, 1999	July 4, 1999	Apr. 4, 1999
Revenues	\$ 207,876	\$ 184,497	\$ 161,523	\$ 151,591
Gross Profit	\$ 101,798	\$ 85,969	\$ 71,293	\$ 62,788
Net income	\$ 47,473	\$ 26,417	\$ 8,480	\$ 8,684
Net income per share:				
Basic	\$ 0.43	\$ 0.25	\$ 0.08	\$ 0.09
Diluted	\$ 0.39	\$ 0.23	\$ 0.08	\$ 0.09

	Three Months Ended			
	Jan. 3, 1999	Sept. 28, 1998	June 29, 1998	Mar. 30, 1998
Revenues	\$ 145,570	\$ 143,791	\$ 133,376	\$ 132,154
Gross Profit	\$ 49,948	\$ 47,213	\$ 41,629	\$ 6,993
Net income (loss)	\$ (1,751)	\$ 1,649	\$ (9,221)	\$ (95,595)
Net income (loss) per share:				
Basic	\$ (0.02)	\$ 0.02	\$ (0.09)	\$ (0.92)
Diluted	\$ (0.02)	\$ 0.02	\$ (0.09)	\$ (0.92)

PART III

Certain information required by Part III is omitted from this Report in that the registrant will file a definitive proxy statement pursuant to Regulation 14A (the "Proxy Statement") not later than 120 days after the end of the fiscal year covered by this Report, and certain information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item concerning our directors is incorporated by reference to the information set forth in the sections entitled "Proposal One-Election of Directors" and "Compliance with Section 16(a) of the Exchange Act" in our Proxy Statement for the 2000 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of the Company's fiscal year ended January 2, 2000, except that the information required by this item concerning the executive officers of Cypress is incorporated by reference to the information set forth in the section entitled "Executive Officers of the Registrant" at the end of Part I of this Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to our Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to our Proxy Statement.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership on Form 3 and changes in ownership on Form 4 or 5 with the Securities and Exchange Commission (the "SEC") and the National Association of Securities Dealers. Such officers, directors and 10% stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) forms that they file.

Based solely on its review of the copies of such forms received by us, we believe that, during the fiscal year ended January 2, 2000, all Section 16(a) filing requirements applicable to our officers, directors and 10% stockholders were satisfied.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as a part of this report:

	PAGE

(1) FINANCIAL STATEMENTS	
Consolidated Balance Sheets at January 2, 2000 and January 3, 1999....	28
Consolidated Statements of Operations for the three years ended January 2, 2000	29
Consolidated Statements of Stockholders' Equity for the three years ended January 2, 2000.....	30
Consolidated Statements of Cash Flows for the three years ended January 2, 2000.....	31
Notes to Consolidated Financial Statements.....	32
Report of Independent Accountants.....	51
(2) FINANCIAL STATEMENT SCHEDULE	
Schedule II-Valuation and qualifying accounts and reserves.....	58

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
2.1 (1)	Amendment and Plan of Reorganization by and among Cypress Semiconductor Corporation, CY Acquisition Corporation and IC WORKS.
2.2 (2)	Amendment and Plan of Reorganization by and among Cypress Semiconductor Corporation, CE Acquisition Corporation and Galvantech, Inc.
3.1 (3)	Restated Certificate of Incorporation, as amended.
3.2 *	Certificate of Amendment dated May 13, 1992 to Restated Certificate of Incorporation.
3.3 *	Certificate of Amendment dated October 23, 1995 to Restated Certificate of Incorporation, as amended.
3.4 (3)	Bylaws, as amended.
4.1 (4)	Lease dated April 12, 1996 between Cypress Semiconductor Corporation and BNP Leasing Corporation.
4.2 (5)	Subordinated Indenture relating to our 6.0% convertible subordinated notes due 2002, and dated as of September 15, 1997, between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee, including the form of note.
4.3 (6)	Subordinated Indenture relating to our 4.0% convertible subordinated notes due 2005, and dated as of January 15, 2000, between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee, including the form of note.
4.4 *	Supplemental Trust Indenture relating to our 4.0% convertible subordinated notes due 2005, and dated a of January 15, 2000, between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee, including the form of note.
10.1 (3) (7)	Form of Indemnification Agreement.
10.2 (7) *	Cypress Semiconductor Corporation 1994 Stock Option Plan.
10.3 (7) (8)	Cypress Semiconductor Corporation Employee Qualified Stock Purchase Plan, as amended.
10.4 (7) (9)	Consulting Agreement between Fred Bialek and Cypress Semiconductor Corporation.
10.5 (7) *	Cypress Semiconductor Corporation 1999 Key Employee Bonus Plan Agreement.
10.6 (7) (10)	Cypress Semiconductor Corporation 1999 Non-statutory Stock Option Plan

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21.1 *	Subsidiaries of Cypress Semiconductor Corporation.
23.1 *	Consent of Independent Accountants.
24.1 *	Power of Attorney (see page 57).
27.1 *	Financial Data Schedule.

-
- (1) Previously filed as an exhibit to our current report on Form 8-K dated February 12, 1999.
 - (2) Previously filed as an exhibit to our current report on Form 8-K, dated January 18, 2000.
 - (3) Previously filed as an exhibit to our registration statement on Form S-1 which was declared effective on March 4, 1987 (SEC file number 33-12153).
 - (4) Previously filed as an exhibit to our annual report on Form 10-K for the fiscal year ended December 30, 1996.
 - (5) Previously filed as an exhibit to our registration statement on Form S-3 dated December 19, 1997 (SEC file number 333-42829).
 - (6) Previously filed as an exhibit to our registration statement on Form S-3/A, dated March 24, 1999 (SEC file number 333-67203).
 - (7) Management compensatory plan, contract or arrangement.
 - (8) Previously filed as an exhibit to our registration statement on Form S-8 dated December 10, 1998 (SEC file number 333-68703).
 - (9) Previously filed as an exhibit to our annual report on Form 10-K for the

fiscal year ended January 3, 1999.

(10) Previously filed as an exhibit to our registration statement on Form S-8 dated April 20, 1999 (SEC file number 333-76665).

* Filed as an exhibit to this annual report.

(b) Reports on Form 8-K:

1. On December 8, 1999 we filed a report on Form 8-K, which reported under Item 5, that pursuant to our acquisition of IC WORKS, Incorporated, we had changed the fiscal year of IC WORKS, Incorporated to correspond to our fiscal year. Pursuant to Item 7, we attached the financial statements of IC WORKS, Incorporated, reflecting the resultant changes.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant, Cypress Semiconductor Corporation, a corporation organized and existing under the laws of the State of Delaware, has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized, in the City of San Jose, State of California, on the 8th day of March 2000.

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Emmanuel Hernandez

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

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POWER OF ATTORNEY

Each of the officers and directors of Cypress Semiconductor Corporation whose signature appears below hereby constitutes and appoints T.J. Rodgers and Emmanuel Hernandez and each of them, their true and lawful attorneys-in-fact and agents, with full power of substitution, each with power to act alone, to sign and execute on behalf of the undersigned any amendment or amendments to this report on Form 10-K, and to perform any acts necessary to be done in order to file such amendment, and each of the undersigned does hereby ratify and confirm all that said attorneys-in-fact and agents, or their or his substitutes, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
----- /s/ T.J. Rodgers ----- T. J. Rodgers	President, Chief Executive Officer and Director (Principal Executive Officer)	March 7, 2000
----- /s/ Emmanuel Hernandez ----- Emmanuel Hernandez	Chief Financial Officer Vice President, Finance and Administration (Principal Financial and Accounting Officer)	March 7, 2000
----- /s/ Eric Benhamou ----- Eric Benhamou	Chairman of the Board of Directors	March 7, 2000
----- /s/ Fred B. Bialek -----	Director	March 7, 2000

Fred B. Bialek

/s/ John C. Lewis

John C. Lewis

Director

March 7, 2000

/s/ Al Shugart

Al Shugart

Director

March 7, 2000

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SCHEDULE II

CYPRESS SEMICONDUCTOR CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Description -----	Beginning Balance -----	Charged to Costs and Expenses -----	Charged to Other Accounts -----	Deductions -----	Ending Balance -----
1997					
Allowance for sales returns and doubtful accounts	\$ 4,742,000	\$ --	\$ 502,000	\$(1,134,000)	\$ 4,110,000
1998					
Allowance for sales returns and doubtful accounts	\$ 4,110,000	\$ --	\$ 1,917,000	\$(2,977,000)	\$ 3,050,000
1999					
Allowance for sales returns and doubtful accounts	\$ 3,050,000	\$ --	\$ --	\$ (66,000)	\$ 2,984,000

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CERTIFICATE OF AMENDMENT

OF

THE RESTATED CERTIFICATE OF INCORPORATION

OF

CYPRESS SEMICONDUCTOR CORPORATION

Cypress Semiconductor Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, certifies as follows:

1. That the Board of Directors of Cypress Semiconductor Corporation unanimously approved the adoption of a resolution setting forth a proposed amendment of the Restated Certificate of Incorporation of this corporation, declaring said amendment to be advisable and authorizing the solicitation of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED: That Section 4. (a) of the Restated Certificate of Incorporation of this corporation shall be amended to read in its entirety as follows:

"4. (a) The Corporation is authorized to issue two classes of shares to be designated, respectively, "Preferred Stock" and "Common Stock." The number of shares of Preferred Stock authorized to be issued is five million (5,000,000) and the number of shares of Common Stock authorized to be issued is seventy-five million (75,000,000). The Preferred Stock and the Common Stock shall each have a par value of \$.01 per share. The aggregate par value of all shares of Preferred Stock is \$50,000 and the aggregate par value of all shares of Common Stock is \$750,000."

2. That pursuant to the resolution of its Board of Directors, the corporation obtained, as required by Section 228 of the General Corporation Law of the State of Delaware, the necessary number of shares required by statute as were voted in favor of the amendment.

3. That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, this Certificate of Amendment is executed this 13th day of May, 1992.

CYPRESS SEMICONDUCTOR CORPORATION

/s/ T.J. Rodgers

T.J. Rodgers
President

ATTEST: /s/ Kenneth Goldman

Kenneth A. Goldman
Secretary

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
CYPRESS SEMICONDUCTOR CORPORATION

CYPRESS SEMICONDUCTOR CORPORATION, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), pursuant to the provisions of the General Corporation Law of the State of Delaware, (the "GCL"), DOES HEREBY CERTIFY as follows:

FIRST: The Certificate of Incorporation of the Corporation is hereby amended by deleting the second, third and fourth sentences of Section 4(a) of the Certificate of Incorporation in its present form and substituting therefor a new second sentence of Section 4(a) in the following form:

"The total number of shares of all classes of stock which the Corporation has authority to issue is Two Hundred Fifty Five Million (255,000,000), consisting of Two Hundred Fifty Million (250,000,000) shares of Common Stock, \$0.01 par value (the "Common Stock"), and Five Million (5,000,000) shares of Preferred Stock, \$0.01 par value (the "Preferred Stock")."

SECOND: The amendment to the Certificate of Incorporation of the Corporation set forth in this Certificate of Amendment has been duly adopted in accordance with the provisions of Section 242 of the GCL (a) the Board of Directors of the Corporation having duly adopted a resolution setting forth such amendment and declaring its advisability and submitting it to the stockholders of the Corporation for their approval, and (b) the stockholders of the Corporation having duly adopted such amendment by a vote of the holders of a majority of the outstanding stock entitled to vote thereon by written consent of the stockholders.

IN WITNESS WHEREOF, the Corporation has caused its corporate seal to be hereunto affixed and this Certificate of Amendment to be signed by Emmanuel Hernandez, its Chief Financial Officer this 23rd day of October, 1995.

CYPRESS SEMICONDUCTOR CORPORATION

BY: /s/ Emmanuel Hernandez

[Corporate Seal]

=====
Cypress Semiconductor Corporation

and

State Street Bank and Trust Company of California, N.A.
Trustee

Supplemental Trust Indenture

Dated as of January 15, 2000

Supplementing that certain

Subordinated Indenture

Dated as of January 15, 2000

Authorizing the Issuance and Delivery of

Subordinated Debt Securities

4% Convertible Subordinated Notes due 2005
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This Supplemental Trust Indenture, dated as of January 15, 2000 (the "Supplemental Indenture"), between Cypress Semiconductor Corporation, a corporation duly organized and existing under the laws of the State of Delaware (the "Company"), and State Street Bank and Trust Company of California, N.A., a national banking association organized and existing under the laws of the United States of America, as Trustee (the "Trustee"), supplementing that certain Subordinated Indenture, dated as of January 15, 2000, between the Company and the Trustee (such Indenture, as supplemented by this Supplemental Indenture for this series of Securities, being referred to herein as the "Indenture").

Recitals

A. The Company has duly authorized the execution and delivery of the Indenture heretofore executed and delivered to provide for the issuance from time to time of its unsecured debentures, notes, or other evidences of indebtedness to be issued in one or more series as provided for in the Indenture heretofore executed and delivered.

B. The Indenture heretofore executed and delivered provides that the Securities of each series shall be in substantially the form set forth in the Indenture heretofore executed and delivered, or in such other form as may be established by or pursuant to a Board Resolution or in one or more supplemental indentures thereto, in each case with such appropriate insertions, omissions, substitutions, and other variations as are required or permitted by the Indenture, and may have such letters, numbers, or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined to be required by the officers executing such securities, as evidenced by their execution thereof.

C. The Company and the Trustee have agreed that the Company shall issue and deliver, and the Trustee shall authenticate, Securities denominated "4% Convertible Subordinated Notes due 2005" (the "Notes") pursuant to the terms of this Supplemental Indenture and substantially in the form set forth below, in each case with such appropriate insertions, omissions, substitutions, and other variations as are required or permitted by the Indenture heretofore executed and delivered and this Supplemental Indenture, and with such letters, numbers, or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of such Securities.

ARTICLE ONE
ISSUANCE OF NOTES

Section 101 Issuance of Notes; Principal Amount; Maturity.

(a) On January 25, 2000, the Company shall issue and deliver to the Trustee, and the Trustee shall authenticate, Notes substantially in the form set forth in Annex 1, in each case with such appropriate insertions, omissions,

substitutions and other variations as are required or permitted by the Indenture and this Supplemental Indenture, and with such letters, numbers, or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any Securities exchange or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their execution of such Notes.

(b) There is hereby authorized a series of Securities designated the 4% Convertible Subordinated Notes due 2005, which may be authenticated and delivered under the Indenture in an unlimited principal amount. The Notes shall mature on February 1, 2005, which shall be the Stated Maturity.

Section 102 Interest on the Notes; Payment of Interest.

(a) The Notes shall bear interest at the rate of 4% per annum from January 25, 2000 and to and including February 1, 2005. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

(b) The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date shall, as provided in such Indenture, be paid to the Person in whose name a Note is registered at the close of business on the Regular Record Date for such interest, which shall be the January 15 or July 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

(c) Payment of the principal of (and premium, if any) and any interest on the Notes shall be made at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which shall initially be State Street Bank and Trust Company, N.A., an affiliate of the Trustee, as agent of the Trustee) or at the Corporate Trust Office of the Trustee in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address appears in the Security Register; provided that a Holder with an aggregate principal amount in excess of \$2,000,000 will be paid by wire transfer in immediately available funds at the election of such Holder.

The Company hereby initially designates the Trustee as Paying Agent, Security Registrar, Custodian and conversion agent, and each of the Corporate Trust Office of the Trustee and the office

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of the Trustee in the Borough of Manhattan, The City of New York (which shall initially be State Street Bank and Trust Company, N.A., an affiliate of the Trustee, as agent of the Trustee located at 61 Broadway, 15th floor, New York, New York, 10006, Attn: Corporate Trust Administration (Cypress Semiconductor Corporation 4% Convertible Subordinated Notes due 2005)), one such office or agency of the Company for each of the aforesaid purposes.

ARTICLE TWO CERTAIN DEFINITIONS

Section 201 Certain Definitions.

The terms defined in this Section 201 (except as herein otherwise expressly provided or unless the context of this Supplemental Indenture otherwise requires) for all purposes of this Supplemental Indenture and of any indenture supplemental hereto have the respective meanings specified in this Section 201. All other terms used in this Supplemental Indenture that are defined in the Indenture or the Trust Indenture Act, either directly or by reference therein (except as herein otherwise expressly provided or unless the context of this Supplemental Indenture otherwise requires), have the respective meanings assigned to such terms in the Indenture or the Trust Indenture Act, as the case may be, as in force at the date of this Supplemental Indenture as originally executed.

"Capital Stock" or "capital stock" of any person means any and all shares, interests, partnership interests, participations, rights or other equivalents (however designated) of such person's equity interest (however designated).

"Interest Payment Dates" with respect to the Notes shall be February 1 and August 1.

"Principal Amount" of a Security means the principal amount as set forth on the face of the Security.

"Regular Record Dates" with respect to the Notes shall be January 15 and July 15.

"Trading Day" means each Monday, Tuesday, Wednesday, Thursday and Friday other than any day on which the Common Stock is not traded on the New York Stock Exchange, or if the Common Stock is not traded on the New York Stock Exchange, on the principal exchange or market on which the Common Stock is traded or quoted.

"Voting Stock" means any class or classes of Capital Stock pursuant to which the holders thereof under ordinary circumstances have the power to vote in the election of the board of directors, managers or trustees of any Person (or other persons performing similar functions), irrespective of whether or not, at the time, Capital Stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency.

The definitions of other terms are specified in Articles Five and Six.

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ARTICLE THREE
CERTAIN COVENANTS

The following covenant shall be applicable to the Company for so long as any of the Notes are outstanding.

Section 301 Registration and Listing.

The Company (i) will effect all registrations with, and obtain all approvals by, all governmental authorities that may be necessary under any United States Federal or state law (including the Securities Act, the Exchange Act and state securities and Blue Sky laws) before the shares of Common Stock issuable upon conversion of Notes may be lawfully issued and delivered, and thereafter publicly traded, and qualified or listed as contemplated by clause (ii); and (ii) will list the shares of Common Stock required to be issued and delivered upon conversion of the Notes prior to such issuance or delivery on the New York Stock Exchange or such other exchange or automated quotation as the Common Stock is then listed at such date of conversion. The provisions of Section 1008 of the Indenture shall not apply to this Section 301.

ARTICLE FOUR
REDEMPTION OF NOTES

Section 401 Right of Redemption. The Notes will not be subject to redemption prior to February 5, 2003 and will be redeemable on and after such date at the option of the Company, in whole or in part, upon not less than 20 nor more than 60 days' notice to the Holders, at the Redemption Prices (expressed as a percentage of principal amount) set forth below.

The Redemption Price (expressed as a percentage of principal amount) is as follows:

Year	Redemption Price
----	-----
Beginning on February 5, 2003 and ending on January 31, 2004	101%
Beginning on February 1, 2004 and thereafter	100%

in each case together with accrued and unpaid interest to, but excluding, the Redemption Date; provided, however, that interest installments whose Stated Maturity is on such Redemption Date will be payable to the Holders of such Notes, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

The Notes are not subject to redemption through operation of any sinking fund.

Section 402 Conversion Arrangement on Call for Redemption.

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In connection with any redemption of Notes, the Company may arrange for the purchase and conversion of any Notes by an agreement with one or more investment bankers or other purchasers to purchase such Notes by paying to the Trustee in trust for the Holders, on or before the date fixed for redemption, an amount not less than the applicable Redemption Price, together with interest accrued to (but excluding) the date fixed for redemption, of such Notes. Notwithstanding anything to the contrary contained herein, the obligation of the Company to pay the Redemption Price of such Notes, together with interest accrued to (but excluding) the Redemption Date, shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers. If such an agreement is entered into, a copy of which will be filed with the Trustee prior to the Redemption Date, any Notes not duly surrendered for conversion by the Holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained herein) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the Redemption Date (and the right to convert any such Notes shall be extended through such time), subject to payment of the above amount as aforesaid. At the direction of the Company, the Trustee shall hold and dispose of any such amount paid to it in the same manner as it would monies deposited with it by the Company for the redemption of Notes. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Notes shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Notes between the Company and such purchasers to which the Trustee has not consented in writing, including the costs and expenses, including reasonable legal fees, incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

ARTICLE FIVE
CONVERSION OF NOTES

Section 501 Conversion Privilege and Conversion Price

Subject to and upon compliance with the provisions of this Article, at the option of the Holder thereof, any Note may be converted into fully paid and nonassessable shares of Common Stock of the Company at the Conversion Price, determined as hereinafter provided, in effect at the time of conversion. Such conversion right shall commence on January 25, 2000 and expire at the close of business on February 1, 2005, subject, in the case of the conversion of any Global Security, to any applicable book-entry procedures of the Depository therefor. In case a Note is called for redemption at the election of the Company, such conversion right in respect of the Note shall expire at the close of business on the Business Day next preceding the Redemption Date. A Note in respect of which a Holder is exercising its option to require redemption upon a Change in Control may be converted only if such Holder withdraws its election to exercise its option in accordance with Article Six of this Supplemental Indenture.

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The initial Conversion Price of the Notes is \$46.25 per share of Common Stock, and shall be adjusted in certain instances as provided in this Article Five.

Section 502 Adjustment of Conversion Price

The Conversion Price shall be adjusted from time to time by the Company as follows:

(a) In case the Company shall (i) pay a dividend on its Common Stock in shares of Common Stock, (ii) make a distribution on its Common Stock in shares of Common Stock, (iii) subdivide its outstanding Common Stock into a greater number of shares, or (iv) combine its outstanding Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior thereto shall be adjusted so that the Holder of any Security thereafter surrendered for conversion shall be entitled to receive that number of shares of Common Stock which it would have owned had such Note been converted immediately prior to the happening of such event. An adjustment made pursuant to this subsection (a) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of subdivision or combination. The Company will not pay any dividend on or make any distribution on shares of its Common Stock held in the treasury of the Company.

(b) In case the Company shall issue rights or warrants to all or substantially all holders of its Common Stock entitling them (for a period commencing no earlier than the record date described below and expiring not more than 60 days after such record date) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share (or having a conversion price per share) less than the current market price per share of Common Stock (as determined in accordance with subsection (e) of this Section 502) on the record date for the determination of shareholders entitled to receive such rights or warrants, the Conversion Price in effect immediately prior thereto shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to such record date by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on such record date plus the number of shares which the aggregate offering price of the total number of shares of Common Stock so offered (or the aggregate conversion price of the convertible securities so offered, which shall be determined by multiplying the number of shares of Common Stock issuable upon conversion of such convertible securities by the conversion price per share of Common Stock pursuant to the terms of such convertible securities) would purchase at the current market price per share (as defined in subsection (e) of this Section 502) of Common Stock on such record date and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock offered (or into which the convertible securities so offered are convertible). Such adjustment shall be made successively whenever any such rights or warrants are issued, and shall become effective immediately after such record date. If at the end of the period during which such rights or warrants are exercisable not all rights or warrants shall have been exercised, the adjusted Conversion Price shall be immediately readjusted to what it would have been based upon the number of additional shares of Common Stock actually issued (or

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the number of shares of Common Stock issuable upon conversion of convertible securities actually issued).

(c) In case the Company shall distribute to all or substantially all holders of its Common Stock any shares of capital stock (other than dividends or distributions of Common Stock on Common Stock to which Section 502(a) applies) of the Company, or evidences of indebtedness or other assets (including securities of any person other than the Company, but excluding all-cash distributions to which 502(d) applies or any rights or warrants referred to in 502(b)), then in each such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the current Conversion Price by a fraction of which the numerator shall be the current market price per share (as defined in subsection (e) of this Section 502) of the Common Stock on the record date mentioned below less the fair market value on such record date (as determined by the Board of Directors, whose determination shall be conclusive evidence of such fair market value and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of the portion of the capital stock, evidences of indebtedness or other non-cash assets so distributed or of such rights or warrants applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date) and of which the denominator shall be the current market price per share (as defined in subsection (e) of this Section 502) of the Common Stock on such record date. Such adjustment shall be made successively whenever any such distribution is made and shall become effective immediately after the record date for the determination of shareholders entitled to receive such

distribution.

In the event that the Company implements a stockholder rights plan, such rights plan shall provide, subject to customary exceptions, that upon conversion of the Notes the Holders will receive, in addition to the Common Stock issuable upon such conversion, the rights issued under such rights plan (notwithstanding the occurrence of an event causing such rights to separate from the Common Stock at or prior to the time of conversion). Any distribution of rights or warrants pursuant to a stockholder rights plan complying with the requirements set forth in the immediately preceding sentence of this paragraph shall not constitute a distribution of rights or warrants for the purposes of this Section 502(c).

Rights or warrants distributed by the Company to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Company's capital stock (either initially or under certain circumstances), which rights or warrants, until the occurrence of a specified event or events ("Trigger Event"): (i) are deemed to be transferred with such shares of Common Stock; (ii) are not exercisable; and (iii) are also issued in respect of future issuances of Common Stock, shall be deemed not to have been distributed for purposes of this Section 502(c) (and no adjustment to the Conversion Price under this Section 502(c) will be required) until the occurrence of the earliest Trigger Event. If such right or warrant is subject to subsequent events, upon the occurrence of which such right or warrant shall become exercisable to purchase different securities, evidences of indebtedness or other assets or entitle the holder to purchase a different number or amount of the foregoing or to purchase any of the foregoing at a different purchase price, then the occurrence of each such event shall be deemed to be the date of issuance and record date with respect to a new right or warrant (and a termination or expiration of the existing right or warrant without exercise by

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the holder thereof). In addition, in the event of any distribution (or deemed distribution) of rights or warrants, or any Trigger Event or other event (of the type described in the preceding sentence) with respect thereto, that resulted in an adjustment to the Conversion Price under this Section 502(c), (1) in the case of any such rights or warrants which shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price received by a holder of Common Stock with respect to such rights or warrants (assuming such holder had retained such rights or warrants), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of such rights or warrants all of which shall have expired or been terminated without exercise, the Conversion Price shall be readjusted as if such rights and warrants had never been issued.

(d) (1) In case the Company shall, by dividend or otherwise, at any time distribute (a "Triggering Distribution") to all or substantially all holders of its Common Stock all cash distributions in an aggregate amount that, together with the aggregate amount of (A) any cash and the fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of any other consideration payable in respect of any tender offer by the Company or a Subsidiary of the Company for Common Stock consummated within the 12 months preceding the date of payment of the Triggering Distribution and in respect of which no Conversion Price adjustment pursuant to this Section 502 has been made and (B) all other cash distributions to all or substantially all holders of its Common Stock made within the 12 months preceding the date of payment of the Triggering Distribution and in respect of which no Conversion Price adjustment pursuant to this Section 502 has been made, exceeds an amount equal to 10% of the product of the current market price per share of Common Stock (as determined in accordance with subsection (e) of this Section 502) on the Business Day (the "Determination Date") immediately preceding the day on which such Triggering Distribution is declared by the Company multiplied by the number of shares of Common Stock outstanding on the Determination Date (excluding shares held in the treasury of the Company), the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying such Conversion Price in effect immediately prior to the Determination Date by a fraction of which the numerator shall be the current market price per share of the Common Stock (as determined in accordance with subsection (e) of this Section 502) on the Determination Date less the sum of

the aggregate amount of cash and the aggregate fair market value (determined as aforesaid) of any such other consideration so distributed, paid or payable within such 12 months (including, without limitation, the Triggering Distribution) applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the Determination Date), and of which the denominator shall be such current market price per share of the Common Stock (as determined in accordance with subsection (e) of this Section 502) on the Determination Date, such reduction to become effective immediately prior to the opening of business on the day following the date on which the Triggering Distribution is paid; provided that, in the event the portion of the cash so distributed applicable to one share of Common Stock is equal to or greater than such current market price per share of the Common Stock, in lieu of the foregoing, an adequate adjustment provision shall be made so that each holder of Notes shall have the right to

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receive upon conversion the amount of cash such holder would have received had such holder converted each Note immediately prior to such distribution.

(2) In case any tender offer made by the Company or any of its Subsidiaries for Common Stock shall expire and such tender offer (as amended upon the expiration thereof) shall involve the payment of aggregate consideration in an amount (determined as the sum of the aggregate amount of cash consideration and the aggregate fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee thereof) of any other consideration) that, together with the aggregate amount of (A) any cash and the fair market value (as determined by the Board of Directors, whose determination shall be conclusive evidence thereof and which shall be evidenced by an Officers' Certificate delivered to the Trustee) of any other consideration payable in respect of any other tender offers by the Company or any Subsidiary of the Company for Common Stock consummated within the 12 months preceding the date of the Expiration Date (as defined below) and in respect of which no Conversion Price adjustment pursuant to this Section 502 has been made and (B) all cash distributions to all or substantially all holders of its Common Stock made within the 12 months preceding the Expiration Date and in respect of which no Conversion Price adjustment pursuant to this Section 502 has been made, exceeds an amount equal to 10% of the product of the current market price per share of Common Stock (as determined in accordance with subsection (e) of this Section 502) as of the last date (the "Expiration Date") tenders could have been made pursuant to such tender offer (as it may be amended) (the last time at which such tenders could have been made on the Expiration Date is hereinafter sometimes called the "Expiration Time") multiplied by the number of shares of Common Stock outstanding (including tendered shares but excluding any shares held in the treasury of the Company) at the Expiration Time, then, immediately prior to the opening of business on the day after the Expiration Date, the Conversion Price shall be reduced so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to close of business on the Expiration Date by a fraction of which the numerator shall be the product of the number of shares of Common Stock outstanding (including tendered shares but excluding any shares held in the treasury of the Company) at the Expiration Time multiplied by the current market price per share of the Common Stock (as determined in accordance with subsection (e) of this Section 502) on the Trading Day next succeeding the Expiration Date, and of which the denominator shall be the sum of (x) the aggregate consideration (determined as aforesaid) payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender offer) of all shares validly tendered and not withdrawn as of the Expiration Time (the shares deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares and excluding any shares held in the treasury of the Company) at the Expiration Time and the current market price per share of Common Stock (as determined in accordance with subsection (e) of this Section 502) on the Trading Day next succeeding the Expiration Date, such reduction to become effective immediately prior to the opening of business on the day following the Expiration Date. In the event that the Company is obligated to purchase shares pursuant to any such tender offer, but the Company is permanently prevented by applicable law from effecting any or all such purchases or any or all such purchases are rescinded, the Conversion Price shall again be adjusted to be the Conversion Price which would have been in

effect based upon the number of shares actually purchased. If the application of this Section 502(d)(2) to any tender offer would result in a decrease in the Conversion Price, no adjustment shall be made for such tender offer under this Section 502(d)(2).

(3) For purposes of this Section 502(d), the term "tender offer" shall mean and include both tender offers and exchange offers, all references to "purchases" of shares in tender offers (and all similar references) shall mean and include both the purchase of shares in tender offers and the acquisition of shares pursuant to exchange offers, and all references to "tendered shares" (and all similar references) shall mean and include shares tendered in both tender offers and exchange offers.

(e) For the purpose of any computation under subsections (b), (c) and (d) of this Section 502, the current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the 30 consecutive Trading Days ending on the last full Trading Day before (i) the Determination Date or the Expiration Date, as the case may be, with respect to distributions or tender offers under subsection (d) of this Section 502 or (ii) the record date with respect to distributions, issuances or other events requiring such computation under subsection (b) or (c) of this Section 502. The closing price for each day shall be the last reported sales price or, in case no such reported sale takes place on such date, the average of the reported closing bid and asked prices in either case on the New York Stock Exchange (the "NYSE") or, if the Common Stock is not listed or admitted to trading on the NYSE, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the last reported sales price of the Common Stock as quoted on NASDAQ (the term "NASDAQ" shall include, without limitation, the Nasdaq National Market) or, in case no reported sales takes place, the average of the closing bid and asked prices as quoted on NASDAQ or any comparable system or, if the Common Stock is not quoted on NASDAQ or any comparable system, the closing sales price or, in case no reported sale takes place, the average of the closing bid and asked prices, as furnished by any two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose. If no such prices are available, the current market price per share shall be the fair value of a share of Common Stock as determined by the Board of Directors (which shall be evidenced by an Officers' Certificate delivered to the Trustee).

(f) In any case in which this Section 502 shall require that an adjustment be made following a record date or a Determination Date or Expiration Date, as the case may be, established for purposes of this Section 502, the Company may elect to defer (but only until five Business Days following the filing by the Company with the Trustee of the certificate described in Section 1405 of the Indenture) issuing to the Holder of any Note converted after such record date or Determination Date or Expiration Date the shares of Common Stock and other capital stock of the Company issuable upon such conversion over and above the shares of Common Stock and other capital stock of the Company issuable upon such conversion only on the basis of the Conversion Price prior to adjustment; and, in lieu of the shares the issuance of which is so deferred, the Company shall issue or cause its transfer agents to issue due bills or other appropriate evidence prepared by the Company of the right to receive such shares. If any distribution in respect of which an adjustment to the

Conversion Price is required to be made as of the record date or Determination Date or Expiration Date therefor is not thereafter made or paid by the Company for any reason, the Conversion Price shall be readjusted to the Conversion Price which would then be in effect if such record date had not been fixed or such effective date or Determination Date or Expiration Date had not occurred.

(g) The Company may make such reductions to the Conversion Price, in addition to those required by Article Five, as the board of directors of the Company considers to be advisable to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock resulting from any dividend or distribution of stock (or rights to acquire stock) or from any event treated as such for income tax purposes.

To the extent permitted by applicable law, the Company may from time to time reduce the Conversion Price by any amount for any period of time if the period is at least 20 days, the reduction is irrevocable during the period and the board of directors of the Company shall have made a determination that such reduction would be in the best interests of the Company, which determination shall be conclusive. Whenever the Conversion Price is reduced pursuant to the preceding sentence, the Company shall mail to the holders of record of the Notes a notice of reduction at least 15 days prior to the date the reduced Conversion Price takes effect, and such notice shall state the reduced Conversion Price and the period during which it will be in effect.

Section 503 No Adjustment.

No adjustment in the Conversion Price shall be required unless the adjustment would require an increase or decrease of at least 1% in the Conversion Price as last adjusted; provided, however, that any adjustments which by reason of this Section 503 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article 4 shall be made to the nearest cent or to the nearest 1/1000th of a share, as the case may be.

ARTICLE SIX
REDEMPTION AT OPTION OF HOLDERS UPON A CHANGE IN CONTROL

Section 601 Purchase of Securities at Option of the Holder Upon Change in Control.

(a) If at any time that Notes remain outstanding there shall occur a Change in Control, Notes shall be purchased by the Company at the option of the Holders thereof as of the date that is 30 Business Days after the occurrence of the Change in Control (the "Change in Control Purchase Date") at a purchase price equal to the principal amount of the Notes, plus accrued and unpaid interest to, but excluding, the Change in Control Purchase Date (the "Change in Control Purchase Price"), subject to satisfaction by or on behalf of any Holder of the requirements set forth in subsection (c) of this Section 601.

A "Change in Control" shall be deemed to have occurred if any of the following occurs after the date hereof:

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(1) any "person" or "group" (as such terms are defined below) is or becomes the "beneficial owner" (as defined below), directly or indirectly, of shares of Voting Stock of the Company representing 50% or more of the total voting power of all outstanding classes of Voting Stock of the Company or has the power, directly or indirectly, to elect a majority of the members of the Board of Directors of the Company; or

(2) the Company consolidates with, or merges with or into, another Person or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, or any Person consolidates with, or merges with or into, the Company, in any such event other than pursuant to a transaction in which the Persons that "beneficially owned" (as defined below), directly or indirectly, shares of Voting Stock of the Company immediately prior to such transaction "beneficially own" (as defined below), directly or indirectly, shares of Voting Stock of the Company representing at least a majority of the total voting power of all outstanding classes of Voting Stock of the surviving or transferee Person; or

(3) there shall occur the liquidation or dissolution of the Company.

For the purpose of the definition of "Change in Control", (i) "person" and "group" have the meanings given such terms under Section 13(d) and 14(d) of the Exchange Act or any successor provision to either of the foregoing, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act (or any successor provision thereto), (ii) a "beneficial owner" shall be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of this Indenture, except that the number of shares of Voting Stock of the Company shall be deemed to include, in addition to all outstanding shares of Voting Stock of the Company and Unissued Shares deemed to be held by the "person" or "group" (as such terms are defined above) or other Person with

respect to which the Change in Control determination is being made, all Unissued Shares deemed to be held by all other Persons, and (iii) the terms "beneficially owned" and "beneficially own" shall have meanings correlative to that of "beneficial owner". The term "Unissued Shares" means shares of Voting Stock not outstanding that are subject to options, warrants, rights to purchase or conversion privileges exercisable within 60 days of the date of determination of a Change in Control.

Notwithstanding anything to the contrary in this Section 601, a Change in Control shall not be deemed to have occurred if either (i) the closing price (as defined in Section 502(e)) of the Common Stock for any five Trading Days during the ten Trading Days immediately preceding the Change in Control is at least equal to 105% of the Conversion Price in effect on such day; or (ii) in the case of a merger or consolidation, all of the consideration excluding cash payments for fractional shares in such merger or consolidation constituting the Change in Control consists of common stock traded on a United States national securities exchange or quoted on NASDAQ (or which will be so traded or quoted when issued or exchanged in connection with such Change in Control) and as a result of such transaction or transactions the Notes become convertible solely into such common stock.

(b) Within 10 Business Days after the occurrence of a Change in Control, the Company shall mail a written notice of the Change in Control to the Trustee and to each Holder (and to

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beneficial owners as required by applicable law) and shall cause a copy of such notice to be published in a daily newspaper of national circulation. The notice shall include the form of a Change in Control Purchase Notice to be completed by the Holder and shall state:

(1) the date of such Change in Control and, briefly, the events causing such Change in Control;

(2) the date by which the Change in Control Purchase Notice pursuant to this Section 601 must be given;

(3) the Change in Control Purchase Date;

(4) the Change in Control Purchase Price;

(5) briefly, the conversion rights of the Notes;

(6) the name and address of each Paying Agent and Conversion Agent;

(7) the Conversion Price and any adjustments thereto;

(8) that Notes as to which a Change in Control Purchase Notice has been given may be converted into Common Stock pursuant to Article 5 of the Supplemental Indenture only to the extent that the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(9) the procedures that the Holder must follow to exercise rights under this Section 601;

(10) the procedures for withdrawing a Change in Control Purchase Notice, including a form of notice of withdrawal; and

(11) that the Holder must satisfy the requirements set forth in the Securities in order to convert the Securities.

If any of the Notes is in the form of a Global Security, then the Company shall modify such notice to the extent necessary to accord with the procedures of the Depositary applicable to the repurchase of Global Securities.

(c) A Holder may exercise its rights specified in subsection (a) of this Section 601 upon delivery of a written notice (which shall be in substantially the form included in Exhibit A hereto and which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depositary's customary procedures) of the

exercise of such rights (a "Change in Control Purchase Notice") to any Paying Agent at any time prior to the close of business on the Business Day next preceding the Change in Control Purchase Date.

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The delivery of such Security to any Paying Agent (together with all necessary endorsements) at the office of such Paying Agent shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor.

The Company shall purchase from the Holder thereof, pursuant to this Section 601, a portion of a Note if the Principal Amount of such portion is \$1,000 or an integral multiple of \$1,000. Provisions of the Indenture that apply to the purchase of all of a Note pursuant to Sections 601 through 606 also apply to the purchase of such portion of such Note.

Notwithstanding anything herein to the contrary, any Holder delivering to a Paying Agent the Change in Control Purchase Notice contemplated by this subsection (c) shall have the right to withdraw such Change in Control Purchase Notice in whole or in a portion thereof that is a Principal Amount of \$1,000 or in an integral multiple thereof at any time prior to the close of business on the Business Day next preceding the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 602.

A Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

Anything herein to the contrary notwithstanding, in the case of Global Securities, any Change in Control Purchase Notice may be delivered or withdrawn and such Securities may be surrendered or delivered for purchase in accordance with the applicable procedures of the Depository as in effect from time to time.

Section 602 Effect of Change in Control Purchase Notice.

Upon receipt by any Paying Agent of the Change in Control Purchase Notice specified in Section 601(c), the Holder of the Note in respect of which such Change in Control Purchase Notice was given shall (unless such Change in Control Purchase Notice is withdrawn as specified below) thereafter be entitled to receive the Change in Control Purchase Price with respect to such Note. Such Change in Control Purchase Price shall be paid to such Holder promptly following the later of (a) the Change in Control Purchase Date with respect to such Note (provided the conditions in Section 601(c) have been satisfied) and (b) the time of delivery of such Security to a Paying Agent by the Holder thereof in the manner required by Section 601(c). Notes in respect of which a Change in Control Purchase Notice has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Change in Control Purchase Notice unless such Change in Control Purchase Notice has first been validly withdrawn.

A Change in Control Purchase Notice may be withdrawn by means of a written notice (which may be delivered by letter, overnight courier, hand delivery, facsimile transmission or in any other written form and, in the case of Global Securities, may be delivered electronically or by other means in accordance with the Depository's customary procedures) of withdrawal delivered by the Holder to a Paying Agent at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date, specifying the Principal Amount of the Security or portion

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thereof (which must be a Principal Amount of \$1,000 or an integral multiple of \$1,000 in excess thereof) with respect to which such notice of withdrawal is being submitted.

Section 603 Deposit of Change in Control Purchase Price.

On or before 11:00 a.m. New York City time on the Change in Control Purchase Date, the Company shall deposit with the Trustee or with a Paying Agent (other than the Company or an Affiliate of the Company) an amount of money (in

immediately available funds if deposited on such Business Day) sufficient to pay the aggregate Change in Control Purchase Price of all the Notes or portions thereof that are to be purchased as of such Change in Control Purchase Date. The manner in which the deposit required by this Section 603 is made by the Company shall be at the option of the Company, provided that such deposit shall be made in a manner such that the Trustee or a Paying Agent shall have immediately available funds on the Change in Control Purchase Date.

If a Paying Agent holds, in accordance with the terms hereof, money sufficient to pay the Change in Control Purchase Price of any Note for which a Change in Control Purchase Notice has been tendered and not withdrawn in accordance with this Indenture then, on the Change in Control Purchase Date, such Note will cease to be outstanding and the rights of the Holder in respect thereof shall terminate (other than the right to receive the Change in Control Purchase Price as aforesaid). The Company shall publicly announce the Principal Amount of Notes purchased as a result of such Change in Control on or as soon as practicable after the Change in Control Purchase Date.

Section 604 Notes Purchased In Part.

Any Note that is to be purchased only in part shall be surrendered at the office of a Paying Agent and promptly after the Change in Control Purchase Date the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Note, without service charge, a new Note or Notes, of such authorized denomination or denominations as may be requested by such Holder, in aggregate Principal Amount equal to, and in exchange for, the portion of the Principal Amount of the Note so surrendered that is not purchased.

Section 605 Compliance With Securities Laws Upon Purchase of Notes.

In connection with any offer to purchase or purchase of Notes under Section 601, the Company shall (a) comply with Rule 13e-4 and Rule 14e-1 (or any successor to either such Rule), if applicable, under the Exchange Act, (b) file the related Schedule 13E-4 (or any successor or similar schedule, form or report) if required under the Exchange Act, and (c) otherwise comply with all federal and state securities laws in connection with such offer, all so as to permit the rights of the Holders and obligations of the Company under Sections 601 through 604 to be exercised in the time and in the manner specified therein.

Section 606 Repayment to the Company.

To the extent that the aggregate amount of cash deposited by the Company pursuant to Section 603 exceeds the aggregate Change in Control Purchase Price together with interest, if any,

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thereon of the Notes or portions thereof that the Company is obligated to purchase, then promptly after the Change in Control Purchase Date the Trustee or a Paying Agent, as the case may be, shall return any such excess to the Company.

Section 607 Successive Consolidations, Mergers, Etc.

In the case of consolidation, merger, conveyance, transfer or lease to which Section 1409 of the Indenture applies, in which the Common Stock of the Company is changed or exchanged as a result into the right to receive equity securities, cash or other property which includes shares of common Stock of the Company or another Person that are, or upon issuance will be, traded on a United States national securities exchange or approved for trading on an established automated over-the-counter trading market in the United States and such shares constitute at the time such change or exchange becomes effective in excess of 50% of the aggregate fair market value of such securities, cash and other property (as determined by the Company, which determination shall be conclusive and binding), then the Person formed by such consolidation, or resulting from such merger or which acquires such assets, as the case may be, shall execute and deliver to the Trustee a supplemental indenture (which shall comply with the Trust Indenture Act as in force at the date of execution of such supplemental indenture) modifying the provisions of the Indenture and this Supplemental Indenture, as applicable, relating to the right of the Holders of the Notes to cause the Company to redeem the Notes following a Change in Control, including without limitation the applicable provisions of this Article Six, as determined in good faith by the Company (which determination shall be conclusive and binding), to make such provisions apply to the common stock of the issuer

thereof if different from the Company and the Common Stock of the Company (in lieu of Common Stock of the Company).

ARTICLE SEVEN
MISCELLANEOUS

Section 701 Consent of Holders Required.

In addition to those modifications or amendments requiring the consent of the Holder of each Outstanding Note effected thereby specified in Section 902 of the Indenture, there can be no modification or amendment that would change the obligation of the Company to redeem any Note upon the happening of a Change in Control in a manner adverse to the Holder of Notes without the consent of the Holder of each outstanding Note effected thereby.

Section 702 Applicability of Certain Indenture Provisions.

Each of the defeasance and covenant defeasance provisions of Article Thirteen of the Indenture shall apply to the Notes; provided, however, that the Company will not be able to defease the right of the Holders to convert the Notes pursuant to Article Fourteen of the Indenture.

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Section 703 Reference to and Effect on the Indenture.

This Supplemental Indenture shall be construed as supplemental to the Indenture and all the terms and conditions of this Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture. Except as set forth herein, the Indenture heretofore executed and delivered is hereby ratified, approved and confirmed. The provisions of this Supplemental Indenture shall for the purposes of this series of Securities supersede the provisions of the Indenture heretofore executed and delivered to the extent such Indenture heretofore executed and delivered is inconsistent herewith. This Supplemental Indenture is subject to the provisions of the Trust Indenture Act, and shall, to the extent applicable, be governed by such provisions.

Section 704 Supplemental Indenture May be Executed In Counterparts.

This instrument may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 705 Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 706 Separability

In case any one or more of the provisions contained in this Supplemental Indenture or in the Notes shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not effect any other provisions of this Supplemental Indenture or of the Notes, but this Supplemental Indenture and the Notes shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed all as of the day and year first above written.

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ Emmanuel Hernandez

Name: Emmanuel Hernandez
Title: Vice President and CFO

STATE STREET BANK AND TRUST COMPANY OF
CALIFORNIA, N. A., AS TRUSTEE

By: /s/ Paula Oswald

Name: Paula M. Oswald
Title: Vice President

Annex 1

[Form of Face of Security]

[If the Security is a Global Security, insert -- THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.]

CYPRESS SEMICONDUCTOR CORPORATION

4% Convertible Subordinated Note due 2005

No. _____ \$ _____

CUSIP:

Cypress Semiconductor Corporation, a corporation duly organized and existing under the laws of Delaware (herein called the "Company," which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on February 1, 2005 and to pay interest thereon from January 25, 2000 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on February 1 and August 1 in each year, commencing August 1, 2000, at the rate of 4% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the January 15 or July 15 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any interest on this

Security will be made at the office or agency of the Company maintained for such purpose in the Borough of

Manhattan, The City of New York, or at the option of the Holder of this Security, at the Corporate Trust Office, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register; provided, further, that a Holder with an aggregate principle amount in excess of \$2,000,000 will be paid by wire transfer in immediately available funds at the election of such Holder. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be signed manually or by facsimile by their duly authorized officers and by its corporate seal to be affixed or imported hereon.

Dated: January 25, 2000 CYPRESS SEMICONDUCTOR CORPORATION

By: _____
Title:

Attest:

By: _____
Title:

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated herein referred to in the within-mentioned Indenture.

STATE STREET BANK AND TRUST COMPANY OF CALIFORNIA, N.A.
As Trustee

By: _____
Authorized Signatory

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Form of Reverse of Security

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under a Subordinated Indenture, dated as of January 15, 2000 (herein called the "Indenture," which term shall have the meaning assigned to it in such instrument), between the Company and State Street Bank and Trust Company of California, N.A., as Trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture and all indentures supplemental thereto for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, the holders of Senior Indebtedness and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof and is issued pursuant to a Supplemental Trust Indenture supplementing the Indenture, dated as of January 15, 2000, from the Company to

Trustee relating to the issuance of the "4% Convertible Notes due 2005" of this series (the "Supplemental Indenture").

The Securities will not be subject to redemption prior to February 5, 2003 and will be redeemable on and after such date at the option of the Company, in whole or in part, upon not less than 20 nor more than 60 days' notice to the Holders, at the Redemption Prices (expressed as a percentage of principal amount) set forth below.

The Redemption Price (expressed as a percentage of principal amount) is as follows:

Year ----	Redemption Price -----
Beginning on February 5, 2003 and ending on January 31, 2004	101%
Beginning on February 1, 2004 and thereafter	100%

in each case together with accrued and unpaid interest to, but excluding, the Redemption Date; provided, however, that interest installments whose Stated Maturity is on such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.

The Securities are not subject to redemption through operation of any sinking fund.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

If a Change in Control (as defined in the Supplemental Indenture) occurs at any time prior to February 1, 2005, the Securities will be redeemable on the 30th day after notice thereof at the option

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of the Holder. Such payment shall be made at a purchase price equal to the principal amount of the Security plus accrued and unpaid interest to, but excluding, the Change in Control Purchase Date (as defined in the Supplemental Indenture). The Company shall mail to all Holders a notice of the occurrence of a Change in Control and of the redemption right arising as a result thereof on or before the 10th Business Day after the occurrence of such Change in Control. For a Security to be so repaid at the option of the Holder, the Company must receive at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, the City of New York, or, at the option of the Holder, the Corporate Trust Office of the Trustee, such Security with the form entitled "Option to Elect Redemption Upon a Change in Control" on the reverse thereof duly completed, together with such Securities duly endorsed for transfer, on or before the 30th day after the date of such notice (or if such 30th day is not a Business Day, the immediately succeeding Business Day).

The indebtedness evidenced by this Security is, to the extent and in the manner provided in the Indenture, subordinate and subject in right of payment to the prior payment in full of all Senior Indebtedness of the Company, and this Security is issued subject to such provisions of the Indenture with respect thereto. Each Holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and (c) appoints the Trustee as his or her attorney-in-fact for any and all such purposes.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture, except that the Company will not be able to defease the right of the Holders to convert this Security pursuant to Article Fourteen of the Indenture.

Subject to the provisions of the Indenture, the Holder of this Security is entitled, at its option, at any time on or before February 1, 2005 (except that, in case this Security or any portion hereof shall be redeemed, such right shall

terminate with respect to this Security or portion hereof, as the case may be, so redeemed at the close of business on the first Business Day next preceding the date fixed for redemption as provided in the Indenture, unless the Company defaults in making the payment due upon redemption or except as otherwise provided in the Indenture), to convert the principal amount of this Security (or any portion hereof which is \$1,000 or an integral multiple thereof) into fully paid and non-assessable shares of the Common Stock of the Company, as said shares shall be constituted at the date of conversion, at the initial Conversion Price of \$46.25 or at the adjusted Conversion Price in effect at the date of conversion determined as provided in the Supplemental Indenture, upon surrender of this Security, together with the conversion notice hereon duly executed, to be accompanied (if so required by the Company) by instruments of transfer, in form satisfactory to the Company and to the Trustee, duly executed by the Holder or by its duly authorized attorney in writing. Such surrender shall, if made during any period beginning at the close of business on a Regular Record Date and ending at the opening of business on the Interest Payment Date next following such Regular Record Date (unless this Security or the portion being converted shall have been called for redemption on a Redemption Date during the period beginning at the close of business on a Regular Record Date and ending at the opening of business on the first

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Business Day after the next succeeding Interest Payment Date, or if such Interest Payment Date is not a Business Day, the second such Business Day), also be accompanied by payment in funds acceptable to the Company of an amount equal to the interest payable on such Interest Payment Date on the principal amount of this Security then being converted. Subject to the aforesaid requirement for payment and, in the case of a conversion after the Regular Record Date next preceding any Interest Payment Date and on or before such Interest Payment Date, to the right of the Holder of this Security (or any Predecessor Security) of record at such Regular Record Date to receive an installment of interest (with certain exceptions provided in the Indenture), no adjustment is to be made on conversion for interest accrued hereon or for dividends on shares of Common Stock issued on conversion. The Company is not required to issue fractional shares upon any such conversion, but shall make adjustment therefor as provided in the Indenture. The Conversion Price is subject to adjustment as provided in the Indenture. In the event of conversion of this Security in part only, a new Security or Securities for the unconverted portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of more than 50% in principal amount of the Outstanding Securities of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with

such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the

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enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or its attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

This Security shall be deemed to be a contract made under the laws of New York and for all purposes shall be construed in accordance with the laws of New York, without regard to principles of conflicts of laws.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

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Abbreviations

The following abbreviations, when used in the inscription of the face of this Security, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT - _____
TEN ENT	- as tenants by the entireties (Cust)	
JT TEN	- as joint tenants with right of survivorship and not as tenants in common	Custodian _____ under Uniform (Minor) Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

Conversion Notice

To Cypress Semiconductor Corporation:

The undersigned owner of this Security hereby irrevocably exercises the option to convert this Security, or portion hereof (which is \$1,000 or an integral multiple thereof) below designated, into shares of Common Stock of the Company in accordance with the terms of the Indenture referred to in this Security, and directs that the shares issuable and deliverable upon the conversion, together with any check in payment for fractional shares and any Securities representing any unconverted principal amount hereof, be issued and delivered to the registered Holder hereof unless a different name has been indicated below. If this Notice is being delivered on a date after the close of business on a Regular Record Date and prior to the opening of business on the related Interest Payment Date (unless this Security or the portion thereof being converted has been called for redemption on a Redemption Date after the close of business on a Regular Record Date and prior to the opening of business on the first Business Day after the next succeeding Interest Payment Date, or if such Interest Payment Date is not a Business Day, the next such Business Day), this Notice is accompanied by payment, in funds acceptable to the Company, of an amount equal to the interest payable on such Interest Payment Date of the principal of this Security to be converted. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect hereto. Any amount required to be paid by the undersigned on account of interest accompanies this Security.

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Principal Amount to be Converted
(in an integral multiple of \$1,000, if less
than all)

\$ _____

Owner: _____

Dated: _____

Signature(s) must be guaranteed by a qualified guarantor institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934 if shares of Common Stock are to be delivered, or Securities to be issued, other than to and in the name of the registered owner.

Signature Guaranty

Fill in for registration of shares of Common Stock and Security if to be issued otherwise than to the registered Holder.

(Name)

Social Security or Other Taxpayer
Identification Number

(Address)

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To: Cypress Semiconductor Corporation

The undersigned registered owner of this Security hereby irrevocably acknowledges receipt of a notice from Cypress Semiconductor Corporation (the "Company") as to the occurrence of a Change in Control with respect to the Company and requests and instructs the Company to redeem the entire principal amount of this Security, or the portion thereof (which is \$1,000 or an integral multiple thereof) below designated, in accordance with the terms of the Indenture referred to in this Security at the redemption price, together with accrued interest to, but excluding, such date, to the registered Holder hereof.

Dated: _____

Signature(s)

Signature(s) must be guaranteed by a qualified guarantor institution with membership in an approved signature guarantee program pursuant to Rule 17Ad-15 under the Securities Exchange Act of 1934.

Signature Guaranty

Principal amount to be redeemed
(in an integral multiple of \$1,000, if less than all):

NOTICE: The signature to the foregoing Election must correspond to the Name as written upon the face of this Security in every particular, without alteration or any change whatsoever.

SUMMARY

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

CYPRESS SEMICONDUCTOR CORPORATION
1994 STOCK OPTION PLAN

(As amended and Restated on January 25, 1996 and November __, 1996)

1. Purposes of the Plan. The purposes of this Stock Option Plan are:
 - o to attract and retain the best available personnel for positions of substantial responsibility;
 - o to provide additional incentive to Employees, Directors and Consultants and Outside Directors; and
 - o to promote the success of the Company's business.
2. Components of the Plan. The Plan provides for:
 - o the discretionary granting of Options to Employees, Directors and Consultants, which Options may be either Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant; and
 - o the grant of Nonstatutory Stock Options to Outside Directors pursuant to an automatic, non-discretionary formula.
3. Definitions. As used herein, the following definitions shall apply:
 - (a) "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with Section 5 of the Plan.
 - (b) "Applicable Laws" means the legal requirements relating to the administration of stock option plans under U.S. state corporate laws, U.S. Federal and state securities laws, the Code, any stock exchange or quotation system on which the common stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where options are, or will be, granted under the Plan.
 - (c) "Board" means the Board of Directors of the Company.
 - (d) "Code" means the Internal Revenue Code of 1986, as amended.
 - (e) "Committee" means a Committee appointed by the Board in accordance with Section 5 of the Plan.
 - (f) "Common Stock" means the Common Stock of the Company.
 - (g) "Company" means Cypress Semiconductor Corporation, a Delaware corporation.
 - (h) "Consultant" means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.
 - (i) "Continuous Status as a Director" means that the Director relationship is not interrupted or terminated.
 - (j) "Continuous Status as an Employee or Consultant" means that the employment or consulting relationship with the Company or any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) any leave of absence approved by the Company, including sick leave, military leave, or any other personal leave; provided, however, that for purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company

policies) or statute; provided, further, that on the ninety-first (91st) day of any such leave (where reemployment is not guaranteed by contract or statute) the Optionee's Incentive Stock Option shall cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option; or (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor.

(k) "Director" means a member of the Board.

(l) "Disability" means total and permanent disability as defined in Section 22(e) (3) of the Code.

(m) "Employee" means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director's fee by the Company shall be sufficient to constitute "employment" by the Company.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(o) "Existing Directors" means members of the Board on October 12, 1988.

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(p) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, the Fair Market Value of a Share of Common Stock shall be the closing sale price for such stock (or the mean of the closing bid and asked prices, if no sales were reported), as quoted on such exchange (or the exchange with the greatest volume of trading in Common Stock) or system on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(ii) If the Common Stock is quoted on the NASDAQ system (but not on the National Market System thereof) or is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean of the closing bid and asked prices for such stock on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(q) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

(r) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option.

(s) "Notice of Grant" means a written notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is part of the Option Agreement.

(t) "Officer" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(u) "Option" means a stock option granted pursuant to the Plan or the Terminated Plans.

(v) "Option Agreement" means a written agreement between the Company and an

Optionee evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

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(w) "Option Exchange Program" means a program whereby outstanding options are surrendered in exchange for options with a lower exercise price.

(x) "Optioned Stock" means the Common Stock subject to an Option.

(y) "Optionee" means an Employee, Consultant or Outside Director who holds an outstanding Option.

(z) "Outside Director" means a Director who is not an Employee or Consultant.

(aa) "Parent" means a "parent corporation", whether now or hereafter existing, as defined in Section 424(e) of the Code.

(bb) "Plan" means this 1994 Stock Option Plan, as amended.

(cc) "Rule 16b-3" means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

(dd) "Share" means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

(ee) "Subsidiary" means a "subsidiary corporation", whether now or hereafter existing, as defined in Section 424(f) of the Code.

(ff) "Terminated Plans" means the Company's 1985 Incentive Stock Option Plan and 1988 Directors' Stock Option Plan, which are terminated upon adoption of, and superseded by, this Plan; however, outstanding Options under the Terminated Plans shall continue in full force in effect, subject to the provisions of such Options and this Plan.

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

Subject to Section 14 of the Plan, if any Shares that have been optioned under an Option (whether granted under this Plan or the Terminated Plans) cease to be subject to such Option (other than through exercise of the Option), or if any Option granted hereunder or thereunder is forfeited, or any Option otherwise terminates prior to the issuance of Common Stock to the

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participant, the Shares that were subject to such Option shall again be available for distribution in connection with future Options under the Plan. Shares that have actually been issued under the Plan upon exercise of an Option shall not in any event be returned to the Plan and shall not become available for future distribution under the Plan.

5. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. The Plan may be administered by different Committees with respect to. Different groups of Employees, Consultants and Directors.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable to qualify Options granted hereunder as "performance-based compensation" within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more "outside directors" within the meaning of Section 162(m) of the Code.

(iii) Rule 16b-3. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee, which committee shall be constituted to satisfy Applicable Laws.

(v) Administration With Respect to Automatic Grants to Outside Directors. Automatic Grants to Outside Directors shall be pursuant to a non-discretionary formula as set forth in Section 11 hereof and therefore shall not be subject to any discretionary administration.

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

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

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

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

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

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

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

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

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

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

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

Plan);

(xi) to allow Optionees to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or Stock Purchase Right that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by an Optionee to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

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

(xiii) to institute an Option Exchange Program;

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

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

(c) Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Optionees and any other holders of Options.

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6. Eligibility.

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

(b) Outside Director Stock Options. Outside Directors shall also receive Nonstatutory Stock Options pursuant to Section 11 hereof.

7. Limitations.

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

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

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

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

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

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

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

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

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

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

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

10. Option Exercise Price and Consideration.

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

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

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

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be no less than eighty-five percent (85%) of Fair Market Value per Share on the date of grant. In the case of a Nonstatutory Stock Option intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

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

(c) Form of Consideration. Except with respect to automatic stock option grants to Outside Directors, the Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such

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form of consideration shall be set forth in the Notice of Grant or Option Agreement and may, as determined by the Administrator, consist entirely of:

(i) cash;

(ii) check;

(iii) promissory note;

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

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

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

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

11. Automatic Stock Option Grants to Outside Directors.

(a) Procedure for Grants. All grants of Options to Outside Directors hereunder shall be automatic and non-discretionary and shall be made strictly in accordance with the following provisions:

(i) Each Outside Director shall be automatically granted an Option to purchase 80,000 Shares (the "First Option") upon the date on which such person first becomes a Director, whether through election by the stockholders of the Company or appointment by the Board of Directors to fill a vacancy.

(ii) After the First Option has been granted to an Outside Director, such Outside Director shall thereafter be automatically granted an Option to purchase 20,000 Shares (a "Subsequent Option") on a date one year after the date of grant of the First Option and on the same date each year thereafter.

(iii) Notwithstanding the provisions of subsections (ii) and (iii) hereof, in the event that an automatic grant hereunder would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased upon exercise of Options to exceed the number of Shares available for issuance under the Plan, then each such automatic grant shall be for

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that number of Shares determined by dividing the total number of Shares remaining available for grant by the number of Outside Directors on the automatic grant date. Any further grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan.

(iv) The terms of an Option granted hereunder shall be as follows:

(A) the term of the Option shall be ten (10) years.

(B) the Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in subsection (c) hereof.

(C) the exercise price per Share shall be 100% of the fair market value per Share on the date of grant of the Option.

(D) the Option shall become exercisable as follows:

(1) If it is a First Option, it shall become exercisable cumulatively in installments of 16,000 Shares per year beginning on the date one year after such Director's election to the Board of Directors.

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

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

(c) Post-Directorship Exercisability.

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

(ii) Disability of Director. Notwithstanding the provisions of Section 11(c)(i) above, in the event a Director is unable to continue his service as a Director with the Company as a result of his Disability, he may, but only within six (6) months from the date of

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termination, exercise his Option to the extent he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise the Option at the date of termination, or if he does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

(iii) Death of Director. In the event of the death of an Optionee:

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

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

12. Exercise of Option.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth

in the Option Agreement. Unless the Administrator provides otherwise, vesting of options granted hereunder shall be tolled during any unpaid leave or absence. An Option may not be exercised for a fraction of a Share.

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

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

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

(c) Disability of Optionee. In the event that an Optionee's Continuous Status as an Employee or Consultant terminates as a result of the Optionee's Disability, the Optionee may exercise his or her Option at any time within (i) for discretionary stock options, six (6) months or such other period of time not exceeding twelve (12) months, as is specified in the Notice of Grant or Option Agreement, or (ii) for automatic stock option grants to Outside Directors, six (6) months from the date of such termination. Any such Options may only be exercised to the extent that the Optionee was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant or Option Agreement). If, at the date of termination, the Optionee is not entitled to exercise his or her entire Option, the Shares covered by the unexercisable portion of the Option shall revert to the Plan. If, after termination, the Optionee does not exercise his or her Option within the time specified herein, the Option shall terminate, and the Shares covered by such Option shall revert to the Plan.

(d) Death of Optionee. In the event of the death of an Optionee:

(i) during the term of the Option who is at the time of his death an officer of the Company and who shall have been in Continuous Status as an Employee or Consultant since the date of grant of the Option, the Option may be exercised, at any time within six (6) months following the date of death,

by the Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living and remained in Continuous Status an Employee or Consultant for twelve (12) months after the date of death; or

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

13. Non-Transferability of Options. Unless determined otherwise by the Administrator, an Option may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Optionee, only by the Optionee. If the Administrator makes an Option transferable, such Option shall contain such additional terms and conditions as the Administrator deems appropriate.

14. Adjustments Upon Changes in Capitalization, Dissolution, Merger, Asset Sale or Change of Control.

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

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, with respect to discretionary Options granted under the Plan (but not with respect to Options granted to Outside Directors) the Board may, in the exercise of its sole discretion in such instances, declare that any such Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his or her Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.

(c) Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Option shall be assumed or an equivalent option shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. With respect to a discretionary Option granted under the Plan (but not with respect to Options granted to Outside Directors), the Administrator may,

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in the exercise of its sole discretion and in lieu of such assumption or substitution, provide for the Optionee to have the right to exercise such Option as to all of the Optioned Stock, including as to Shares which would not otherwise be exercisable. With respect to Options granted to Outside Directors on or after the Effective Date of the Plan, in the event that the successor corporation does not agree to assume such Options or to substitute equivalent options, each such outstanding Option shall become fully vested and exercisable, including as to Shares as to which it would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise. With respect to Options granted to Outside Directors prior to the Effective Date of the Plan, in the event that the successor corporation does not agree to assume such Options or to substitute equivalent options, such Options shall terminate.

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

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

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

16. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Optionee, unless mutually agreed otherwise

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between the Optionee and the Administrator, which agreement must be in writing and signed by the Optionee and the Company.

17. Conditions Upon Issuance of Shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such

Shares if, in the opinion of counsel for the Company, such a representation is required.

18. Liability of Company.

(a) Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

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

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CYPRESS SEMICONDUCTOR CORPORATION
1994 STOCK OPTION PLAN
NOTICE OF GRANT

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

[Optionee's Name and Address]

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

Grant Number	_____
Date of Grant	_____
Vesting Commencement Date	_____
Exercise Price per Share	\$ _____
Total Number of Shares Granted	_____
Total Exercise Price	\$ _____
Type of Option:	<input type="checkbox"/> Incentive Stock Option <input type="checkbox"/> Nonstatutory Stock Option
Term/Expiration Date:	_____
Vesting Schedule:	

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

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

Termination Period:

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

CYPRESS SEMICONDUCTOR CORPORATION
1994 STOCK OPTION PLAN
OPTION AGREEMENT

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

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

If designated in the Notice of Grant as an Incentive Stock Option ("ISO"), this Option is intended to qualify as an Incentive Stock Option under Section 422 of the Code. However, if this Option is intended to be an Incentive Stock Option, to the extent that it exceeds the \$100,000 rule of Code Section 422(d) it shall be treated as a Nonstatutory Stock Option ("NSO").

2. Exercise of Option.

(a) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement. In the event of Optionee's death, Disability or other termination of Optionee's employment or consulting relationship, the exercisability of the Option is governed by the applicable provisions of the Plan and this Option Agreement.

(b) Method of Exercise. This Option is exercisable by delivery of an exercise notice, in the form attached as Exhibit A (the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Exercised Shares. This Option shall be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

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

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

(a) cash; or

(b) check; or

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

(d) surrender of other Shares which (i) in the case of Shares acquired upon exercise of an option, have been owned by the Optionee for more than six (6) months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate Exercise Price of the Exercised Shares.

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

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

6. Tax Consequences. Some of the federal and California tax consequences relating to this Option, as of the date of this Option, are set forth below. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercising the Option.

(i) Nonstatutory Stock Option. The Optionee may incur regular federal income tax and California income tax liability upon exercise of a NSO. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price. If the Optionee is an Employee, the Company will be required to withhold from his or her compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(ii) Incentive Stock Option. If this Option qualifies as an ISO, the Optionee will have no regular federal income tax or California income tax liability upon its exercise,

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although the excess, if any, of the Fair Market Value of the Exercised Shares on the date of exercise over their aggregate Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal tax purposes and may subject the Optionee to alternative minimum tax in the year of exercise. In the event that the Optionee undergoes a change of status from Employee to Consultant, any Incentive Stock Option of the Optionee that remains unexercised shall cease to qualify as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option on the ninety-first (91st) day following such change of status.

(b) Disposition of Shares.

(i) NSO. If the Optionee holds NSO Shares for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

(ii) ISO. If the Optionee holds ISO Shares for at least one year after exercise and two years after the grant date, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. If the Optionee disposes of ISO Shares within one year after exercise or two years after the grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the lesser of (A) the difference between the Fair Market Value of the Shares acquired on the date of exercise and the aggregate Exercise Price, or (B) the difference between the sale price of such Shares and the aggregate Exercise Price.

(c) Notice of Disqualifying Disposition of ISO Shares. If the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to an ISO on or before the later of (i) two years after the grant date, or (ii) one year after the exercise date, the Optionee shall immediately notify the Company in writing of such disposition. The Optionee agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized from such early disposition of ISO Shares by payment in cash or out of the

current earnings paid to the Optionee.

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

OPTIONEE: CYPRESS SEMICONDUCTOR CORPORATION

Signature By: -----

Print Name Title: -----

Residence Address

CONSENT OF SPOUSE

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

Spouse of Optionee

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EXHIBIT A

CYPRESS SEMICONDUCTOR CORPORATION

1994 STOCK OPTION PLAN

EXERCISE NOTICE

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

1. Exercise of Option. Effective as of today, _____, 199__, the undersigned ("Purchaser") hereby elects to purchase _____ shares (the "Shares") of the Common Stock of Cypress Semiconductor Corporation (the "Company") under and pursuant to the 1994 Stock Option Plan (the "Plan") and the Stock Option Agreement dated _____, 19__ (the "Option Agreement"). The purchase price for the Shares shall be \$ _____, as required by the Option Agreement.

2. Delivery of Payment. Purchaser herewith delivers to the Company the full purchase price for the Shares.

3. Representations of Purchaser. Purchaser acknowledges that Purchaser has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

4. Rights as Shareholder. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Optionee as soon as practicable after exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.

5. Tax Consultation. Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted with any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

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

Submitted by:

Accepted by:

PURCHASER:

CYPRESS SEMICONDUCTOR
CORPORATION

Signature

By: -----

Print Name

Its: -----

Address:

Address:

3901 North First Street

San Jose, CA 95134

List of Subsidiaries

Name -----	Jurisdiction of Incorporation -----
Cypress Semiconductor (Minnesota) Inc. (CMI)	Delaware
Cypress Semiconductor (Texas) Inc. (CTI)	Delaware
Cypress Semiconductor Round Rock, Inc.	Delaware
Cypress Export, Inc.	Barbados
Cypress Investment Corporation	Delaware
Cypress Semiconductor International, Inc.	Delaware
Cypress Semiconductor SARL	France
Cypress Semiconductor GmbH	Germany
Cypress Semiconductor India Private Limited	India
Cypress Semiconductor Italia S.r.l.	Italy
Cypress Semiconductor K.K.	Japan
Cypress Semiconductor AB	Scandinavia
Cypress Semiconductor Limited	UK
Cypress Semiconductor Singapore Pte. Ltd	Singapore
Cypress Semiconductor Canada	Canada
Cypress Semiconductor Korea	Korea
Cypress Semiconductor Philippines Inc. (CSPI)	Philippines
Cyland Corporation	Philippines
Cypress Semiconductor (Thailand) Co., Ltd.	Thailand
Cypress Semiconductor World Trade Corporation	Cayman Islands
IC WORKS, Inc	California
Anchor Chips, Inc	Delaware
Cypress Microsystems, Inc.	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-95711) and in the Registration Statements on Forms S-8 (No. 333-76667, 333-76665, 333-93719, 333-93839, 333-79997, 333-68703, 333-52035, 333-24831, 333-00535, 033-59153) of Cypress Semiconductor Corporation of our report dated January 26, 2000 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

San Jose, California
March 8, 2000

<ARTICLE> 5

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This schedule contains summary financial information extracted from the consolidated financial statements for the year ended January 2, 2000 and is qualified in its entirety by reference to such financial statements.

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