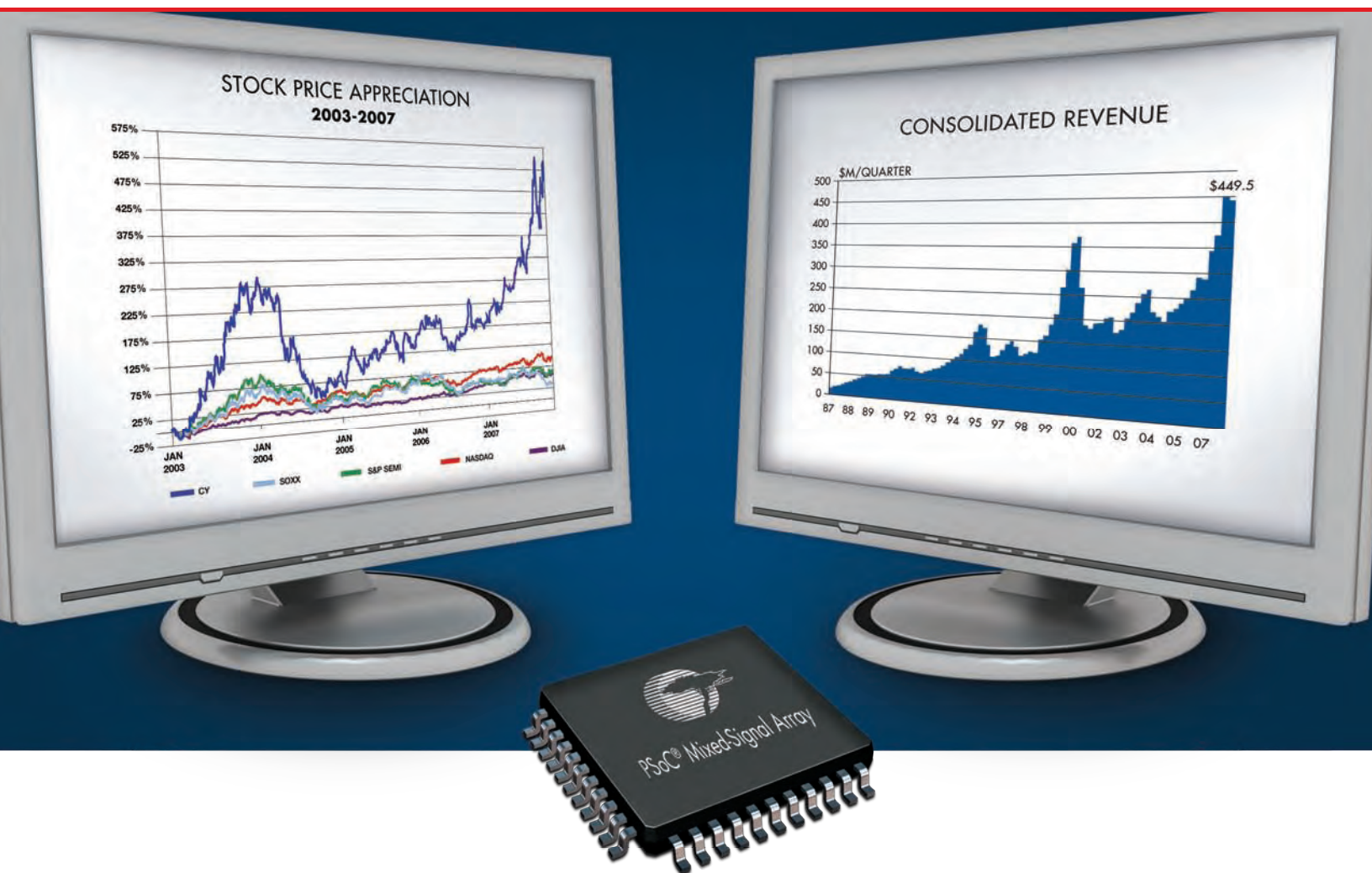


CYPRESS

2 0 0 7 A N N U A L R E P O R T

"We are overjoyed to see the dot.com bust disappear in our rearview mirror as we drive toward the next level defined by our new Mission Statement." — T.J. Rodgers, 2006 Annual Report



2007: A RECORD REVENUE YEAR

Cypress's focus on programmable products combined with exceptional results from SunPower to generate record annual revenue of US\$1.60 billion in 2007, up 46.2% from the year before. The revenue surge led to stock price appreciation that outpaced major indexes by a wide margin for the third consecutive year.



P E R F O R M

EMERGING MARKET TRENDS

Cypress's broad, expanding portfolio of programmable and proprietary products drove innovation in many large and emerging markets in 2007 and helped to fuel trends that are changing the way we live and work. Cypress posted record revenue of US\$1.6 billion in 2007. Programmable solutions—the focus of the company's Mission Statement—contributed nearly half of core semiconductor revenue.



HUMAN INTERFACE REVOLUTION

Stylish, durable, touch-sensitive interfaces are fast replacing buttons and other mechanical interfaces in products ranging from cell phones to portable media players, automobiles, PCs, white goods, and industrial equipment. Cypress's integrated, easy-to-use CapSense™ capacitive touch-sensing solution has replaced more than 2.5 billion buttons and sliders worldwide, driving many popular products.



SENSE-CONTROL-COMMUNICATE

Many industrial applications accumulate sensory information and convert it into digital language to facilitate a system response. In some cases, this data is transmitted to remote locations for reporting, analysis, and decision-making. Cypress's PSoC® mixed-signal array and PProC™ programmable radio-on-chip solutions form an ideal platform for sensory-control networks.



HANDHELD CONVERGENCE

Today's advanced cellular handsets combine a telephone, a digital camera, an MP3 player, a GPS device, and a PDA into a single product. Cypress's proprietary products—including our MoBL® Dual Port and West Bridge™ solutions—help to drive many of these combination devices and enable the fast transfer of multimedia files between phones and PCs.



ELECTRIC MOBILITY & MOTORS

More than 23 million electric bicycles (known as eBikes) are expected to be sold in China by the year 2010. eBikes are affordably priced at under US\$500 and are easy on the environment. Cypress's PSoC device provides motor control in eBikes, motorized baby strollers, remote-control toys, and other applications.



LED-DRIVEN LIGHTING

Demand for reliable, energy-efficient, high-brightness and ultra-high-brightness LED lighting is expected to reach US\$9 billion by 2011, according to the market research firm iSuppli. Cypress's EZ-Color™ High-Brightness LED solutions provide product designers with unprecedented ease-of-use, flexibility and control in applications including architectural and theater lighting, electronic signage, and entertainment displays.



SOLAR POWER

In-system solar power revenue is expected to grow from US\$26 billion in 2007 to US\$74 billion by 2010, according to Navigant Consulting. Cypress's SunPower subsidiary is an industry leader in this fast-growing market. SunPower is committed to significantly reducing installed system costs, helping to drive consumer and commercial demand and conversion from conventional energy sources.

FELLOW SHAREHOLDERS:

INTRODUCTION¹

In last year's Annual Report, I noted that there were 59 U.S. semiconductor companies in 1983, Cypress's first full year of operation. Of them, only 17 have survived as independent companies. Of course, other very good companies such as Broadcom, Xilinx and Qualcomm have recycled the talent from the failed companies into vibrant, new companies—classic examples of Joseph Schumpeter's theory of "creative destruction." Today, there are 102 U.S.-based semiconductor companies with annual sales of \$30 million or more. At the end of 2006, Cypress ranked 24th among them in revenue. This year, I am happy to say that we have moved up to 20th place, surpassing such stalwarts as Altera, Linear Technology and Microchip.

FINANCIALS

In 2007, Cypress achieved \$1.60 billion in consolidated revenue, up 46% from \$1.09 billion in 2006, as shown in *Figure 1*. Our 2007 non-GAAP diluted earnings per share (EPS) of \$0.82 increased by 61% relative to the \$0.51 in EPS we reported in 2006, as shown in *Figure 2*. On a GAAP basis, our 2007 diluted EPS was inflated to \$2.30 per share by favorable special and one-time events. Our 2007 revenue of \$1.60 billion was an all-time record, which we expect to surpass in 2008. We also expect to grow our 2007 EPS in 2008. These forecasts are made as of the writing of this report in mid-March and consequently take into account the current weak state of

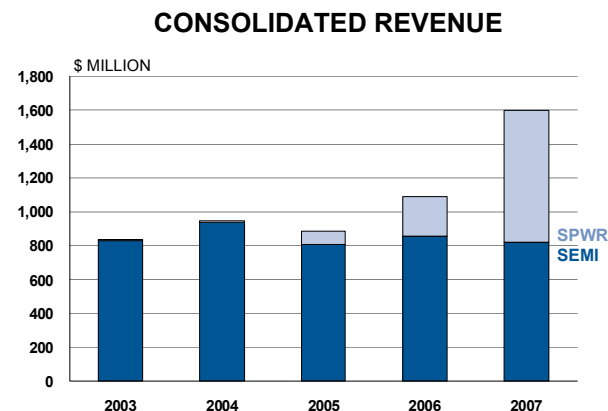


Figure 1. Cypress posted a record \$1.60 billion in revenue in 2007. We expect to set another record in 2008, based on growth in both semiconductors and SunPower.

Note:

1. This report is written so that those with a time constraint can read the figures, then captions and conclusion only.

CONSOLIDATED EPS

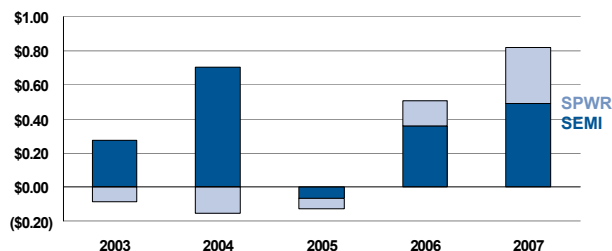


Figure 2. Cypress's EPS of \$0.82 in 2007 was our second best ever, eclipsed only by EPS in the boom year of 2000. The semiconductor business still contributes the majority of our EPS.

the economy, but assume no significant added deterioration.

To a first-order approximation, our consolidated revenue has grown due to SunPower revenue growth, while our semiconductor revenue has remained flat. However, there is revenue growth underlying our semiconductor business when our recent divestitures are taken into account, as shown in *Figure 3*. Over the past two years, in line with our Mission Statement, we have divested businesses that are not aligned with our focus on programmable products and our decision to stop investing in Moore's Law. Last year, we sold our San Jose Fab 1 process development R&D center, which had revenue of \$9 million per quarter from outside customers. We also divested our specialty DRAM business and the final piece of our Network Search Engine business. The total selling price of the four businesses divested in 2007 was approximately \$80 million. Without these divestitures, and two others we

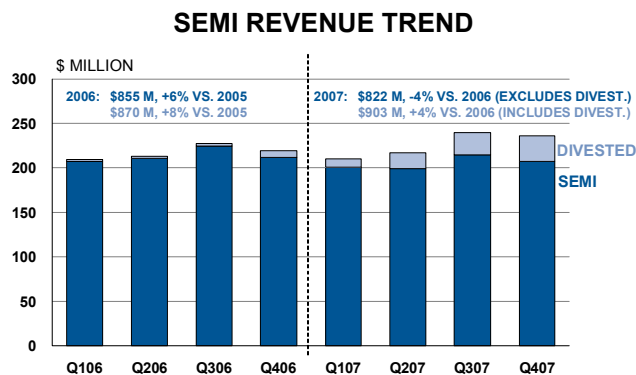


Figure 3. To increase strategic focus, Cypress has divested six businesses with combined annualized revenue of more than \$100 million during the last two years. This is the root cause of reported flat semiconductor revenue.

CYPRESS'S VISION OF OUR FUTURE

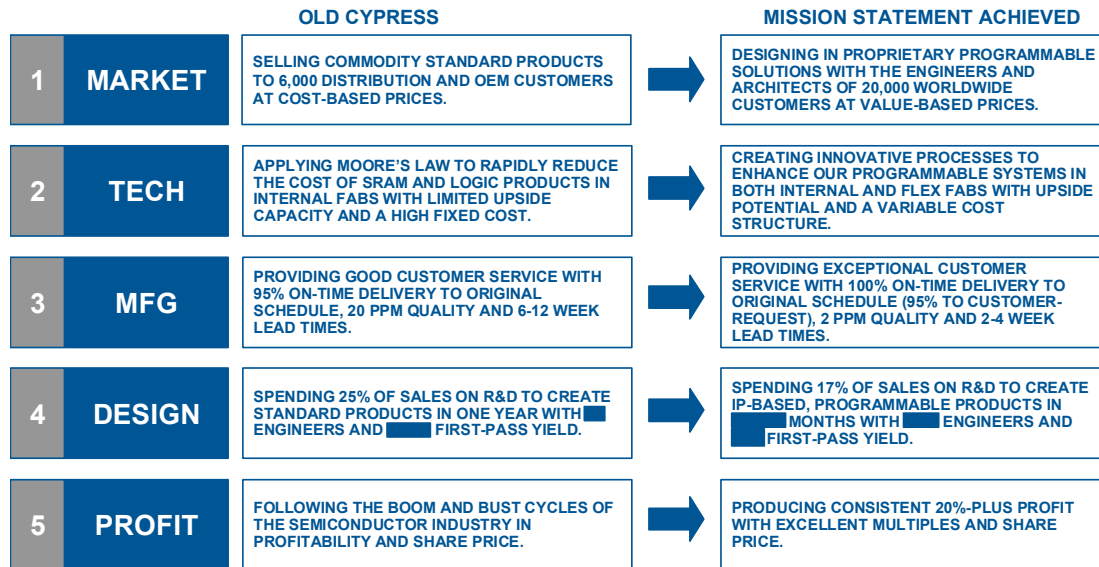


Figure 4. Every aspect of Cypress—Marketing, Technology, Manufacturing and Design—has been changing in our effort to remold Cypress as a competitive programmable products company. Those changes are outlined in our Mission Statement. Our progress toward this mission is outlined in this letter.

made in 2006, our 2007 semiconductor revenue would have been approximately \$903 million, versus the \$822 million we reported. In the fourth quarter of 2007, our revenue was about \$100 million lower on an annualized basis than it would have been without the divestitures. In 2008, we expect our semiconductor revenues to grow, as our divestitures are primarily behind us.

The “Vision of our Future” was detailed in last year’s Annual Report and is reproduced in *Figure 4*. It describes what Cypress will be like when our Mission Statement is achieved. The strategic changes that have had the most immediate benefit to our finances—“Flexible Manufacturing” and “No More Moore”—are actions taken to achieve the goals in the technology section of our Mission Statement. Under our Flexible Manufacturing strategy, while we still make most of our wafers internally (with a long-term target of 50% internal and 50% external), our wafer foundry partners are now making the investments in new fab capacity required for our growth. The No More Moore strategy has freed us from the need to invest in advanced wafer fabrication technology. As one concrete example of that benefit, the \$53 million we received from the sale of Fab 1 paid for all of our fab and non-fab capital expenses in 2007 with a \$14 million surplus. Another visible result of these two strategies is a reduction in semiconductor R&D expenditures from our traditional level of 25%-28% of sales to

SEMI R&D AS A PERCENTAGE OF REVENUE

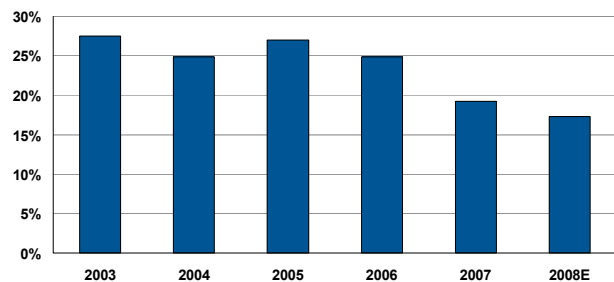


Figure 5. Cypress’s semiconductor R&D expenditures dropped to 18% of sales in 2007, down from 25%-28% in prior years. We expect to get to our target of 17% R&D spending in 2008.

below 20%, as shown in *Figure 5*. In 2008, we expect a further reduction in R&D expenses. However, since we no longer have to split our R&D budget between process development and chip design, we funded new product design fully in 2007 and expect to introduce our strongest portfolio of new products ever in 2008, including our new PSoC3 and PSoC5 product families. We also reduced our total capital expenditures to \$37 million in 2007 from \$110 million in 2006.

The combination of strong consolidated revenue growth and cost reductions in our semiconductor business led to a doubling of our pretax profit in 2007 to \$208 million from \$103 million in 2006, as shown in *Figure 6*.

CONSOLIDATED PRETAX PROFIT

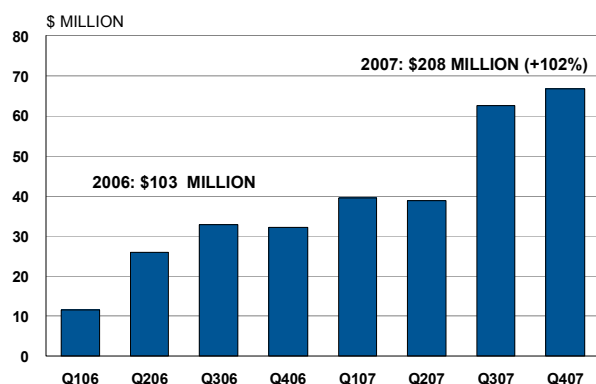


Figure 6. Cypress's profit in each quarter of 2007 improved from the equivalent quarter in 2006. Overall, 2007 pretax profit doubled, relative to 2006.

PROGRESS ON PROGRAMMABLE PRODUCTS MISSION

In order to transform Cypress into a programmable products company with consistent 20% pretax profit, as specified in our Mission Statement, we recognized two years ago that we had to change almost every aspect of "Old Cypress," the standard products and memory company that was incorporated on December 1, 1982. The Mission Statement on the previous page hangs framed on every floor of every Cypress building worldwide. We ask our managers and employees to ensure that all decisions are consistent with it.

Cypress has been shipping programmable memories since 1984. They are the basis of program storage in our PSoC chips. We have also been shipping programmable logic devices since 1985. This technology forms the programmable digital logic in our PSoC chips. When we entered the USB market in 1996, we did so with a microcontroller-based USB product to be more flexible and hence competitive. That strategy worked, as we are now first in the USB marketplace with approximately 34% market share. The point of the data above is that Cypress has long known how to design programmable products and the software to support them. *Figure 7* shows that we have redeployed 80% of our 416 circuit designers to work on programmable products, especially PSoC. The bigger challenge, the culture change demanded by our new mission, is to get the rest of the company to focus on programmable products as our primary business, rather than as an interesting niche business unit embedded in a standard-products company.

For example, Cypress's marketing and sales force has traditionally sold our programmable products as a

R&D FOCUS ON PROGRAMMABLE PRODUCTS

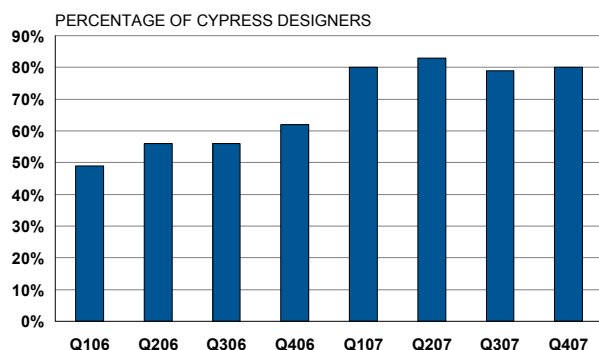


Figure 7. We have redeployed our 416 design engineers, putting 80% of them to work on programmable products, up from 50% two years ago.

sideline along with our standard products, which served only about 6,000 customers. Of that number, only 100 customers accounted for roughly 80% of our business. By contrast, to be successful in the programmable logic business, a company needs to acquire tens of thousands of customers. As another example, in the past, we priced our programmable products as we did our SRAM memories—with a mentality of continuous price reductions based on Moore's Law. Now our goal is to sell proprietary, programmable products using value pricing to capture higher average selling prices (ASPs). Acquiring more customers and changing our pricing strategy might sound relatively straightforward, but we have had to hire new senior marketing managers experienced in programmable products and retrain and motivate our sales force to break ingrained pricing habits. We have been successful with our new customer acquisition efforts: Over a two-year period, we have tripled our PSoC customer base, as shown in *Figure 8*. We are also beginning to succeed in value pricing, as I will discuss later.

EXPANDING PSoC CUSTOMER BASE

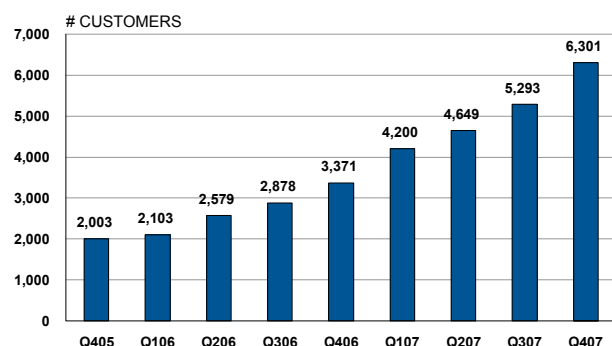


Figure 8. Cypress is on track to achieve our goal of 20,000 PSoC customers by 2010. A customer is someone from whom we have received revenue in the prior 12 months. In the last two years, we have tripled our PSoC customer base from 2,003 to 6,301.

PROPRIETARY REVENUE AS % OF TOTAL

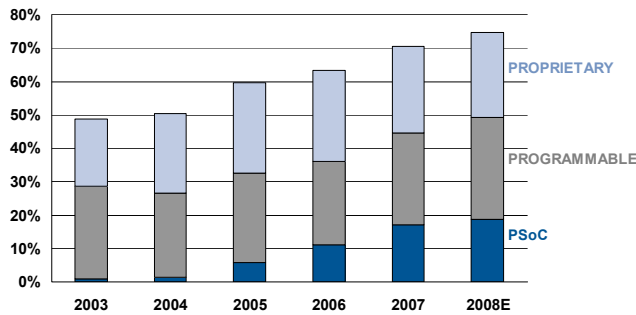


Figure 9. Cypress's sales of proprietary (Cypress-only), programmable (Cypress-only and programmable) and PSoC products have grown from less than 50% of revenue to 70% of revenue during the last four years. We are forecasting continued proprietary product growth in 2008.

We have also succeeded in the part of our mission that takes significant investment: We have transformed our product portfolio to mostly proprietary products over the last five years. *Figure 9* shows that while Cypress had a majority of standard products and almost no PSoC sales in 2003, we now have about 70% sales of proprietary (Cypress-only) products, which consists of approximately 50% programmable product sales and 20% PSoC sales. Thus, 70% of our products are now single-sourced and therefore not subject to price wars during economic downturns. Furthermore, the 50% of our products that are programmable have value to the customer beyond just the silicon chip, which allows us to price at a premium. PSoC is the flagship of our programmable, proprietary product line. As shown in *Figure 10*, we shipped about 150 million PSoC devices in 2007, up from only three million units in 2003.

PSoC UNIT GROWTH

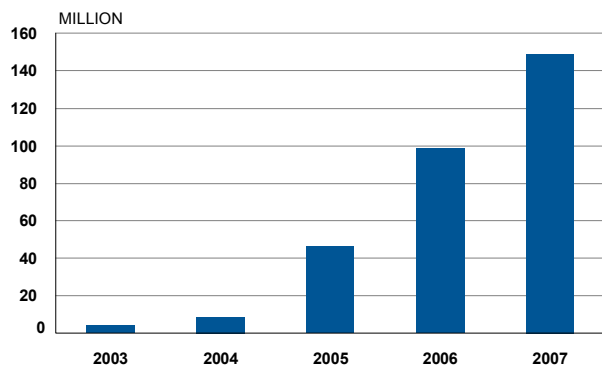


Figure 10. PSoC sales have grown to 150 million units in 2007 from three million units in 2003.

Despite the obvious logic inherent in seeking higher, value-based pricing, the idea met with some cultural resistance: Our sales force preferred to book an order at a low price, rather than hypothetically losing the order at a higher price, even if that higher price was demonstrably fair. We had to learn how to book orders at reasonable prices.

We brought in McKinsey & Co. to train us, top to bottom, on the considerable complexity involved in calculating and negotiating value-based pricing. Using data from in-depth interviews with actual PSoC customers, the consultants discovered 14 ways customers perceive that PSoC creates value in their systems. The pricing process, as shown in a highly condensed form in *Figure 11*, starts by identifying the value of the next-best alternative (NBA) to PSoC in a system design, then adds to the value of the NBA the additional PSoC value provided to the customer on a case-by-case basis.

For example, PSoC has "integration" value in addition to its NBA value, due to its ability to function not only as the system controller, but also to integrate other components, including analog and digital integrated circuits, as well as passive components, such as resistors, capacitors and switches. In many designs, PSoC replaces a dozen or more other components, not only reducing the cost of our customers' designs, but making their circuit boards smaller and power consumption lower. The actual integration value in the average customer design we evaluated in Q4 2007 was \$0.24, or a 21% value premium on top of the NBA.

In addition to its integration value, PSoC also provides more functionality than a generic microcontroller,

PSoC VALUE CALCULATOR

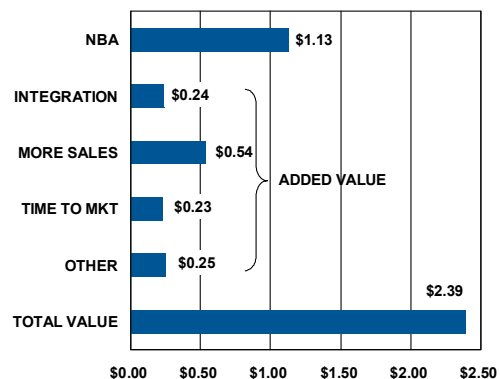


Figure 11. Our PSoC value calculator is deployed on our internal website. Actual Q4 calculations, aggregated to four categories of added customer value, show that the PSoC has a value of \$2.39, on average, while the basic microcontroller function inherent in PSoC, the so-called Next Best Alternative, or NBA, is worth only about half of that figure.

enabling our customers to add more features and thus sell more of their end products. This added functionality comes from PSoC's ability to "dynamically reconfigure" itself—that is, to change its hardware from one specification to another on the fly, and consequently to perform multiple functions in the same socket.

PSoC provides a third type of added value in shortening our customers' time to market by enabling them to change their hardware and software concurrently and thus very rapidly with our integrated design tools. According to the actual sales data shown in *Figure 11*, the sum of all the perceived added value provided by PSoC is slightly greater than the NBA value of just PSoC's basic microcontroller function. That total added value, usually split between us and the customer in a win-win pricing negotiation, has helped raise our average selling prices over the last two years, as shown in *Figure 12*.

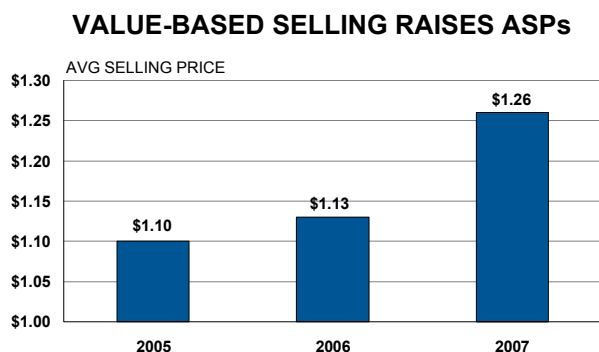


Figure 12. Value-based selling has been applied broadly at Cypress. Our average selling price (ASP) rose from \$1.10 in 2005 to \$1.26 in 2007.

On the marketing side, we have adopted a new business process to accelerate the rate at which we move new customers into our sales funnel. Traditionally, we have tracked only design wins and the ensuing revenue from each design win. Under our new model, we track three stages of customer interaction preceding design wins: "Awareness" (Does the customer know PSoC exists?), "Knowledge" (Has the customer taken the trouble to be technically trained on how to use PSoC?) and "Adoption" (Has the customer paid us for samples or a reference kit in the past 12 months?). By driving these pre-revenue funnel metrics, we have greatly accelerated our acquisition of new PSoC customers. One key metric for "Awareness" is the number of unique visitors to the PSoC section of Cypress.com, which, in itself, has become a major marketing project. The primary metric for "Knowledge" is the number of customer engineers who have taken a formal PSoC training program. Finally,

we measure "Adoption" by the number of customers that have purchased something from us.

Our new Sales and Marketing effort has made great strides toward our market mission objective by improving each of these indices dramatically in 2007. The number of PSoC visitors on our website (*Figure 13*) has jumped from 70,000 to 150,000 per quarter. The number of engineers trained on PSoC each quarter (*Figure 14*) has jumped from a few thousand a year ago to almost 12,000. Finally, over the last two years, the number of unique PSoC customers (*Figure 8*) has tripled from 2,003 at the end of 2005 to more than 6,000 at the end of last year. Our plan is to add more new PSoC customers in 2008 than we had total customers in 2005.

CYPRESS.COM PSoC VISITORS

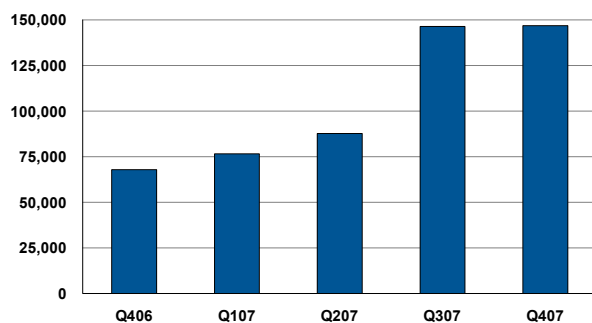


Figure 13. The number of unique visitors to Cypress's PSoC website has doubled over the past year from 70,000 per quarter to nearly 150,000 per quarter.

CUSTOMER ENGINEERS TRAINED

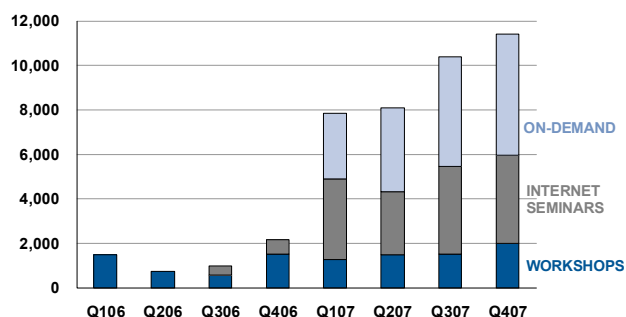
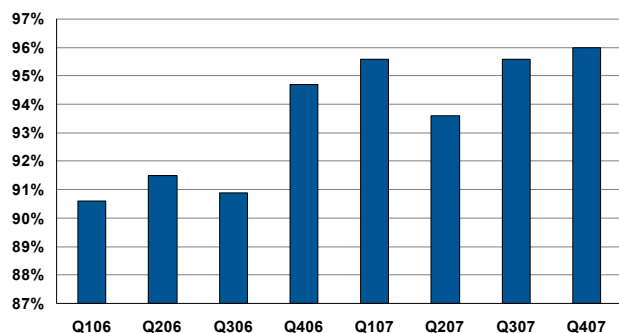


Figure 14. The number of engineers who have undergone PSoC training has increased from a few thousand to about 12,000 per quarter. In addition to our traditional workshops, Internet seminars and on-demand training have become extremely popular.

Our manufacturing mission objective calls for improving customer service as we add new, very demanding consumer and automotive customers. During the year, we improved our on-time delivery to 96%, short of both our immediate target of 98% and our long-term target of 100%, which is an achievable goal. Nonetheless, there

ON-TIME DELIVERY IMPROVEMENT



AUTOMOTIVE QUALITY IMPROVEMENT

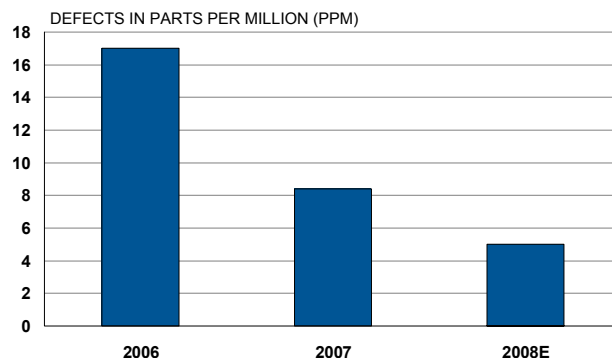


Figure 15. Cypress's on-time delivery has improved to 96%, while our automotive quality defect rate has been driven down to 8 ppm. Although there is progress, we have not reached our short-term goals of 98% on-time delivery and 2 ppm quality.

was real progress, as shown in *Figure 15*. The figure also shows that we cut our quality defect rate in half from 17 parts per million (ppm) to 8 ppm. We expect to cut our ppm defect rate almost in half again by the end of 2008 on our way to the Mission Statement target of 2 ppm—and then on to Zero Defects, our standard, which is also an achievable goal, given time and commitment.

SUNPOWER

SunPower had a spectacular year in 2007! Its revenue more than tripled to \$776 million from the \$237 million reported in 2006, as shown in *Figure 16*. That steep revenue growth drove SunPower's EPS up 147%, to \$1.26 in 2007 from \$0.51 in 2006. Although Cypress maintains 90% voting control of SunPower by virtue of its ownership of Class B shares, we own 51% of the fully diluted outstanding shares, the basis of EPS calculations. Thus, SunPower's contribution to Cypress's EPS in 2007 was \$0.33, up from \$0.14 in 2006.

SUNPOWER REVENUE GROWTH

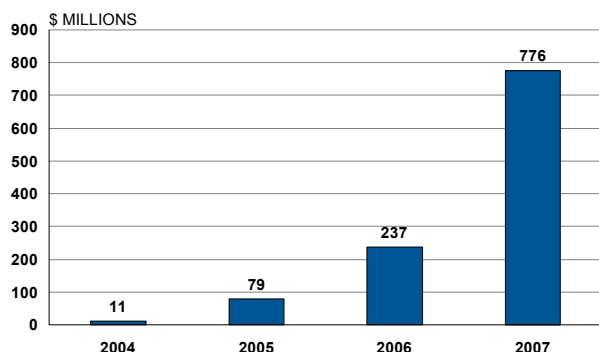


Figure 16. SunPower's revenue tripled to \$776 million in 2007. The Wall Street consensus forecast is \$1.2 billion in revenue in 2008.

During 2007, Cypress conducted its first-ever sale of SunPower shares. We sold 7.5 million shares at an average price of \$58.27 for total proceeds of \$437 million. The sale was executed in a tax-efficient manner, using tax credits to offset the majority of the capital gain. The transaction was a win-win deal in that SunPower received much-needed share float in the stock market and Cypress strengthened its balance sheet. At the end of 2007, our 44.5 million shares in SunPower were worth \$5.8 billion. Even in mid-March, 2008, when SunPower's share price had dropped to the \$60 range, our stake in SunPower was worth \$2.7 billion.

In 2007, SunPower made history by installing the largest solar power plant ever built in the U.S., a 14-megawatt solar power plant at Nellis Air Force Base in Nevada. The project, which covers 140 acres, is pictured on the back cover of this report. During the year, SunPower also built two even bigger power plants in Spain, the latest European nation to "go solar" in a big way. SunPower has also installed significant systems at Toyota, Hewlett-Packard, Agilent and Macy's. While SunPower's biggest business outside of power plants is to retrofit solar systems on existing homes and corporate facilities, the solar roof business—roofing new homes with solar tiles—has also finally taken off. Home developers Lennar, Hugh Futrell and D.R. Horton built more than 1,000 solar homes in California over the past two years. These homes feature not only solar energy systems, but also state-of-the-art energy conservation, making them some of the "greenest" homes ever built in ecology-conscious California.

SunPower is still limited, not by orders, but by its ability to procure polysilicon, the raw material of solar cells. During 2006 and 2007, SunPower pre-paid \$135 million to polysilicon manufacturers in Korea, Germany and the U.S. That new polysilicon supply is starting to trickle into SunPower, but we believe there will be a continued polysilicon shortage throughout 2008 and into 2009. Nonetheless, Wall Street's 2008 consensus revenue forecast for SunPower is slightly more than \$1.2 billion, a 50% increase over 2007 revenue. We are currently building enough solar cell manufacturing capacity to quadruple SunPower's output over the next two to three years, as shown in *Figure 17*.

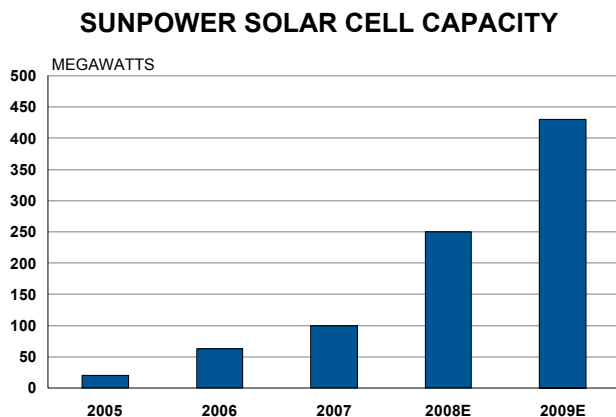


Figure 17. SunPower's first fabrication plant in Manila came to full production at 100 megawatts of annual solar cell production in 2007. Their second plant is already in production and is sized to drive total capacity to 430 megawatts as early as 2009. Their third plant is already on the drawing board.

SHAREHOLDER VALUE

Cypress shares appreciated 114% in 2007. That performance easily beat the major semiconductor benchmarks, as well as the general S&P 500 and Nasdaq indices, as shown on the front cover of this report. Our share price has also outperformed those indices cumulatively over both three- and five-year periods, as shown in *Figure 18*.

We recognize that our excellent 2007 share price performance is now history, given the recent downturn in the stock market. During times like these, "Old Cypress" would have invested more heavily in Moore's Law to reduce costs faster—and we would have lost money,

STOCK PRICE APPRECIATION FOR PERIODS ENDING DECEMBER 2007

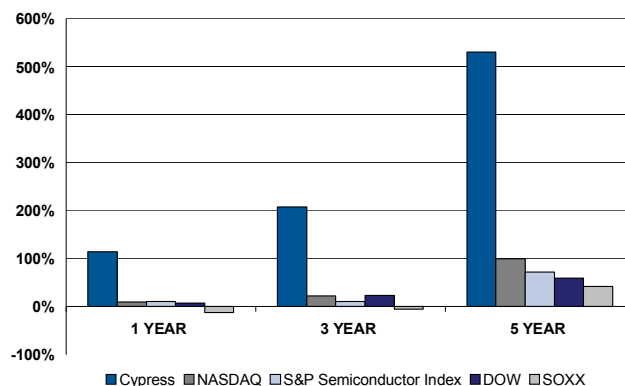


Figure 18. Cypress's stock price outperformed major industry and market indices in 2007. Our share price has also outpaced those indices over both three- and five-year periods.

typically for several consecutive quarters. We believe that the 2008 version of Cypress will weather the current storm—barring a significant economic meltdown—without losing a nickel.

We continue to actively manage shareholder dilution. In 2007, we switched the equity compensation of our top managers from stock options to Restricted Stock Units (RSUs) that are 100% performance-based. RSUs are also available to other employees in the company, with a 3:1 reduction in share count when RSUs are granted in lieu of stock options.

During the year, Cypress issued a convertible debenture that raised \$600 million, all of which was used to repurchase 29 million shares at an attractive price of \$19.78. In addition, our Board also approved spending \$300 million in cash for a share repurchase program, most of which has been invested as of the writing of this report. On February 22, 2008, the Board announced a second \$300 million cash buy-back program, bringing our total 2007-2008 buy-back funding to \$1.2 billion. Despite that heavy use of cash, the semiconductor business ended 2007 with \$1.0 billion in cash and \$5.8 billion in SunPower stock, which we believe will be more than enough to weather any economic downturn in 2008.

Our actions, more than our words, demonstrate that we are committed to enhancing shareholder value.

CONCLUSION

Cypress had an excellent year in 2007, growing revenue by 46% to \$1.60 billion, an all-time record. In addition, our earnings per share were \$0.82, the second best we've ever done, after the dot.com boom year of 2000. The market recognized this performance, driving our share price to outperform major indices significantly, not only for the year, but for three-year and five-year periods.

We made significant progress in the transformation of Cypress into a more economically attractive programmable products company. We minimized the capital investment in our wafer fabrication plants by expanding capacity in very-low-cost foundries in China. We migrated 80% of our workforce of 416 designers onto programmable products and improved our customer service. And the financial results have validated our new strategy.

Last year, I said in the Annual Report that "We are overjoyed to see the dot.com bust disappear in our rear-view mirror, as we drive toward the next level defined by our new mission statement." We now can see the "next level." Our 2008 plan calls for us to break the \$2 billion revenue mark for the first time ever.



T.J. Rodgers
President and CEO

I thank the Cypress employees who created this report, often after-hours or on weekends. We tell our own story without the use of ad agencies or PR firms.

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

The preceding letter contains several forward-looking statements made subject to the safe harbor provisions of the Private Litigation Reform Act of 1995, regarding, among other things, new product releases, growth in our PSoC customer base, our flexible manufacturing strategy, increasing our earnings per share in 2008, reducing our R&D expense, achieving certain quality metrics in our automotive business, and other future events as well as the expected revenue in 2008 and other financial performance projections for Cypress and certain of its business units and operating divisions. Readers are cautioned that these forward-looking statements are not guarantees and may differ materially from actual future events or results due to a variety of factors, including but not limited to: the possibility of a further decline in the general economy, the economic conditions and growth trends in the semiconductor industry, the impact of increased competition, market acceptance of new product offerings, industry wide shifts in supply and demand, the ability of our sales and marketing group to execute on our PSoC initiatives, the effective and cost efficient utilization of manufacturing capacity and other risks identified in Cypress's most recent reports on Form 10-K and 10-Q, including in this Annual Report. We use words such as "anticipates," "believes," "expects," "forecast," "future," "intends," "look forward," "plans," "should," and similar expressions to identify such forward-looking statements. All forward-looking statements included in the preceding letter are based upon information available to, and the expectations of, Cypress management as of the date of the letter, which may change. We assume no obligation to update any such forward-looking statement. Such information speaks only as of the date of this release.

CONTENTS

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

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

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

There are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP and may be different from non-GAAP financial measures used by other companies. In addition, non-GAAP financial measures may be limited in value because they exclude certain items that may have a material impact upon Cypress's reported financial results. Management compensates for these limitations by providing investors with reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP financial measures. The non-GAAP financial measures supplement, and should be viewed in conjunction with, GAAP financial measures. Investors should review the reconciliations of the non-GAAP financial measures to their most directly comparable GAAP financial measures as provided in the following tables.

Consolidated Statements of Operations (Annual)	10
Reconciliation of GAAP to Non-GAAP Financial Measures (Annual)	11
Consolidated Statements of Operations (Quarterly)	12
Reconciliation of GAAP to Non-GAAP Financial Measures (Quarterly)	13
Consolidated Balance Sheets	14
Cypress's Ownership Interest in SunPower	14

Consolidated Statements of Operations (Annual)

(In millions, except per-share data)

	Year Ended		
	Dec. 30, 2007	Dec. 31, 2006	Jan. 1, 2006
Revenues	\$ 1,596	\$ 1,091	\$ 886
Costs and expenses (credits):			
Cost of revenues	1,048	632	528
Research and development	188	242	226
Selling, general and administrative	299	187	156
In-process research and development charge	9	-	12
Amortization and impairment of intangibles	50	16	28
Impairment related to synthetic lease	7	3	1
Restructuring charges	1	-	27
Gain on divestitures	(18)	(15)	-
Total costs and expenses, net	1,584	1,065	978
Operating income (loss)	12	26	(92)
Gain on sale of SunPower's common stock	373	-	-
Interest and other income (expense), net	13	25	(1)
Income (loss) before income tax and minority interest	398	51	(93)
Income tax benefit (provision)	-	(6)	1
Minority interest, net of tax	(4)	(6)	-
Net income (loss)	\$ 394	\$ 39	\$ (92)
Net income (loss) per share:			
Basic	\$ 2.53	\$ 0.28	\$ (0.69)
Diluted	\$ 2.30	\$ 0.25	\$ (0.69)
Weighted-average shares outstanding:			
Basic	156	141	133
Diluted	172	179	133
Percent of revenues:			
Gross margin	34%	42%	40%
Research and development	12%	22%	26%
Selling, general and administrative	19%	17%	18%
Amortization and impairment of intangibles	3%	1%	3%

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

(In millions)

	Year Ended		
	Dec. 30, 2007	Dec. 31, 2006	Jan. 1, 2006
GAAP revenue	\$ 1,596	\$ 1,091	\$ 886
Acquisition-related revenue	1	-	-
Non-GAAP revenue	\$ 1,597	\$ 1,091	\$ 886
GAAP gross margin	\$ 548	\$ 459	\$ 358
Stock-based compensation	26	9	-
Acquisition-related expense	1	1	-
Non-GAAP gross margin	\$ 575	\$ 469	\$ 358
GAAP research and development	\$ 188	\$ 242	\$ 226
Stock-based compensation	(18)	(18)	-
Acquisition-related expense	-	(3)	(3)
Non-GAAP research and development	\$ 170	\$ 221	\$ 223
GAAP selling, general and administrative	\$ 299	\$ 187	\$ 156
Stock-based compensation	(69)	(21)	(2)
Acquisition-related expense	(1)	(1)	(2)
Release of allowance for uncollectible employee loans	7	-	-
Non-GAAP selling, general and administrative	\$ 236	\$ 165	\$ 152
GAAP operating income (loss)	\$ 12	\$ 26	\$ (92)
Stock-based compensation	113	48	2
Acquisition-related expense	61	21	45
Release of allowance for uncollectible employee loans	(7)	-	-
Impairment related to synthetic lease	7	3	1
Restructuring charges	1	-	27
Gain on divestitures	(18)	(15)	-
Non-GAAP operating income (loss)	\$ 169	\$ 83	\$ (17)
GAAP net income (loss)	\$ 394	\$ 39	\$ (92)
Stock-based compensation	113	48	2
Acquisition-related expense	61	21	45
Release of allowance for uncollectible employee loans	(7)	-	-
Impairment related to synthetic lease	7	3	1
Restructuring charges	1	-	27
Gain on divestitures	(18)	(15)	-
Investment-related gains, net	(367)	(5)	2
Write-off of debt issuance costs	20	-	-
Tax effects on non-GAAP adjustments	(21)	(3)	(2)
Minority interest adjustments	(37)	(2)	-
Non-GAAP net income (loss)	\$ 146	\$ 86	\$ (17)
GAAP net income (loss) per share - diluted	\$ 2.30	\$ 0.25	\$ (0.69)
Stock-based compensation	0.59	0.26	0.02
Acquisition-related expense	0.37	0.11	0.33
Release of allowance for uncollectible employee loans	(0.04)	-	-
Impairment related to synthetic lease	0.04	0.02	0.01
Restructuring charges	-	-	0.20
Gain on divestitures	(0.10)	(0.08)	-
Investment-related gains, net	(2.13)	(0.03)	0.02
Write-off of debt issuance costs	0.12	-	-
Tax effects on non-GAAP adjustments	(0.12)	(0.01)	(0.02)
Minority interest adjustments	(0.21)	(0.01)	-
Non-GAAP net income (loss) per share - diluted	\$ 0.82	\$ 0.51	\$ (0.13)

Consolidated Statements of Operations (Quarterly)

(In millions, except per-share data)

	Quarter Ended							
	Dec. 30, 2007	Sept. 30, 2007	Jul. 1, 2007	Apr. 1, 2007	Dec. 31, 2006	Oct. 1, 2006	Jul. 2, 2006	Apr. 2, 2006
Revenues	\$ 431	\$ 449	\$ 373	\$ 343	\$ 287	\$ 290	\$ 265	\$ 249
Costs and expenses (credits):								
Cost of revenues	280	307	250	211	168	167	151	146
Research and development	46	46	43	53	57	61	61	63
Selling, general and administrative	84	71	75	69	50	49	43	45
In-process research and development charge	-	-	-	9	-	-	-	-
Amortization and impairment of intangibles	9	9	23	9	4	4	4	4
Impairment related to synthetic lease	-	-	-	7	1	1	1	-
Restructuring charges	1	-	-	-	-	-	-	-
Gain on divestitures	-	(7)	-	(11)	(9)	-	-	(6)
Total costs and expenses, net	420	426	391	347	271	282	260	252
Operating income (loss)	11	23	(18)	(4)	16	8	5	(3)
Gain on sale of SunPower's common stock	-	-	373	-	-	-	-	-
Interest and other income (expense), net	(6)	14	4	1	4	6	3	12
Income (loss) before income tax and minority interest	5	37	359	(3)	20	14	8	9
Income tax benefit (provision)	-	(3)	2	1	(1)	(2)	(1)	(2)
Minority Interest, net of tax	(2)	(4)	2	-	(3)	(2)	(1)	-
Net income (loss)	\$ 3	\$ 30	\$ 363	\$ (2)	\$ 16	\$ 10	\$ 6	\$ 7
Net income (loss) per share:								
Basic	\$ 0.02	\$ 0.19	\$ 2.39	\$ (0.01)	\$ 0.11	\$ 0.08	\$ 0.04	\$ 0.05
Diluted	\$ 0.01	\$ 0.18	\$ 2.29	\$ (0.01)	\$ 0.09	\$ 0.06	\$ 0.04	\$ 0.05
Weighted-average shares outstanding:								
Basic	160	155	152	156	144	141	140	138
Diluted	183	166	159	156	182	179	145	145
Percent of revenues:								
Gross margin	35%	32%	33%	38%	41%	42%	43%	41%
Research and development	11%	10%	12%	15%	20%	21%	23%	25%
Selling, general and administrative	19%	16%	20%	20%	17%	17%	16%	18%
Amortization and impairment of intangibles	2%	2%	6%	3%	1%	1%	2%	2%

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

(In millions)

	Quarter Ended							
	Dec. 30, 2007	Sept. 30, 2007	Jul. 1, 2007	Apr. 1, 2007	Dec. 31, 2006	Oct. 1, 2006	Jul. 2, 2006	Apr. 2, 2006
GAAP revenue	\$ 431	\$ 449	\$ 373	\$ 343	\$ 287	\$ 290	\$ 265	\$ 249
Acquisition-related revenue	-	-	-	1	-	-	-	-
Non-GAAP revenue	\$ 431	\$ 449	\$ 373	\$ 344	\$ 287	\$ 290	\$ 265	\$ 249
GAAP gross margin	\$ 151	\$ 142	\$ 123	\$ 132	\$ 119	\$ 123	\$ 114	\$ 103
Stock-based compensation	7	8	6	5	3	3	2	1
Acquisition-related expense	-	-	-	1	-	-	1	-
Non-GAAP gross margin	\$ 158	\$ 150	\$ 129	\$ 138	\$ 122	\$ 126	\$ 117	\$ 104
GAAP research and development	\$ 46	\$ 46	\$ 43	\$ 53	\$ 57	\$ 61	\$ 61	\$ 63
Stock-based compensation	(5)	(5)	(4)	(4)	(5)	(4)	(4)	(5)
Acquisition-related expense	-	-	-	-	-	-	(1)	(2)
Non-GAAP research and development	\$ 41	\$ 41	\$ 39	\$ 49	\$ 52	\$ 57	\$ 56	\$ 56
GAAP selling, general and administrative	\$ 84	\$ 71	\$ 75	\$ 69	\$ 50	\$ 49	\$ 43	\$ 45
Stock-based compensation	(21)	(18)	(17)	(13)	(6)	(5)	(5)	(5)
Acquisition-related expense	-	-	-	(1)	-	-	-	(1)
Release of allowance for uncollectible employee loans	1	6	-	-	-	-	-	-
Non-GAAP selling, general and administrative	\$ 64	\$ 59	\$ 58	\$ 55	\$ 44	\$ 44	\$ 38	\$ 39
GAAP operating income (loss)	\$ 11	\$ 23	\$ (18)	\$ (4)	\$ 16	\$ 8	\$ 5	\$ (3)
Stock-based compensation	33	31	27	22	14	12	11	11
Acquisition-related expense	8	8	25	20	4	4	6	7
Release of allowance for uncollectible employee loans	(1)	(6)	-	-	-	-	-	-
Impairment related to synthetic lease	-	-	-	7	1	1	1	-
Restructuring charges	1	-	-	-	-	-	-	-
Gain on divestitures	-	(7)	-	(11)	(9)	-	-	(6)
Non-GAAP operating income	\$ 52	\$ 49	\$ 34	\$ 34	\$ 26	\$ 25	\$ 23	\$ 9
GAAP net income (loss)	\$ 3	\$ 30	\$ 363	\$ (2)	\$ 16	\$ 10	\$ 6	\$ 7
Stock-based compensation	33	31	27	22	14	12	11	11
Acquisition-related expense	8	8	25	20	4	4	6	7
Release of allowance for uncollectible employee loans	(1)	(6)	-	-	-	-	-	-
Impairment related to synthetic lease	-	-	-	7	1	1	1	-
Restructuring charges	1	-	-	-	-	-	-	-
Gain on divestitures	-	(7)	-	(11)	(9)	-	-	(6)
Investment-related gains, net	5	1	(372)	(1)	2	2	-	(9)
Write-off of debt issuance costs	15	-	-	5	-	-	-	-
Tax effects on non-GAAP adjustments	(6)	(4)	(6)	(5)	(2)	-	(1)	-
Minority interest adjustments	(12)	(8)	(10)	(7)	-	(1)	(1)	-
Non-GAAP net income	\$ 46	\$ 45	\$ 27	\$ 28	\$ 26	\$ 28	\$ 22	\$ 10

Consolidated Balance Sheets

(In millions)

	As of	
	Dec. 30, 2007	Dec. 31, 2006
ASSETS		
Cash, cash equivalents and short-term investments	\$ 1,426	\$ 580
Accounts receivable, net	236	163
Inventories	248	119
Property, plant and equipment, net	714	572
Goodwill and other intangible assets	593	396
Other assets	509	293
Total assets	\$ 3,726	\$ 2,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 171	\$ 92
Deferred income	38	45
Income tax liabilities	74	48
Convertible debt [1]	1,025	599
Other liabilities	319	170
Total liabilities	1,627	954
Minority interest	379	123
Stockholders' equity [2]	1,720	1,046
Total liabilities and stockholders' equity	\$ 3,726	\$ 2,123

[1] Convertible debt was short-term as of December 30, 2007 and long-term as of December 31, 2006.

[2] Common stock: 650 and 650 shares authorized; 192 and 145 shares issued; 162 and 145 shares outstanding as of December 30, 2007 and December 31, 2006, respectively.

Cypress's Ownership Interest in SunPower

(In millions)

	As of		
	Dec. 30, 2007	Dec. 31, 2006	Jan. 1, 2006
Number of SunPower's class B common stock held by Cypress	44.5	52.0	52.0
Fair value of Cypress's ownership interest in SunPower [1]	\$ 5,836	\$ 1,934	\$ 1,769
Cypress's ownership interest in SunPower as a percentage of:			
SunPower's outstanding capital stock	56%	75%	85%
SunPower's outstanding capital stock on a fully diluted basis	51%	70%	77%
Total voting rights of SunPower's outstanding capital stock [2]	90%	96%	98%

[1] Fair value is determined based on the closing prices of SunPower's common stock at the end of each year: \$131.05 for 2007, \$37.17 for 2006 and \$33.99 for 2005.

[2] Currently, SunPower has two classes of authorized common stock: class A and class B. Holders of class A common stock are entitled to one vote per share and holders of class B common stock are entitled to eight votes per share.

CORPORATE INFORMATION

BOARD OF DIRECTORS	W. Steve Albrecht ^(1,3)	Associate Dean of Marriott School of Management, Brigham Young University
	Eric Benhamou ^(1,2)	Chairman of our Board, Chairman of the Board of 3Com Corp.
	Lloyd Carney ^(1,2)	Chief Executive Officer at Xsigo Systems
	James R. Long ^(2,3)	Former Executive Vice President of Nortel Networks
	J. Daniel McCranie ^(1,4)	Chairman of the Board of ON Semiconductor and Virage Logic
	T.J. Rodgers ⁽⁵⁾	President and Chief Executive Officer
	Evert P. van de Ven ^(3,4)	Former Executive Vice President and CTO, Novellus Systems
	T.J. Rodgers	President, Chief Executive Officer and Director
EXECUTIVE VICE PRESIDENTS	Brad W. Buss	Executive Vice President, Finance and Administration and Chief Financial Officer
	Ahmad Chatila	Executive Vice President, Memory and Imaging Division, Manufacturing
	Sabbas Daniel	Executive Vice President, Quality
	Paul Keswick	Executive Vice President, New Product Development, Engineering, IT
	Dinesh Ramanathan	Executive Vice President, Data Communications Division
	Christopher Seams	Executive Vice President, Sales and Marketing
	Shahin Sharifzadeh	Executive Vice President, WW Wafer Fabs & Technology; President, China Ops
	Norman Taffe	Executive Vice President, Consumer and Computation Division
	Thomas H. Werner	CEO, SunPower Corp. (subsidiary)
	Hal Zarem	CEO, Silicon Light Machines (subsidiary)
	Harry Sim	CEO, Cypress Systems (subsidiary)
LEGAL MATTERS	Questions regarding legal matters should be directed to:	
	Victoria Tidwell	Vice President, Legal
LEGAL COUNSEL	Wilson, Sonsini, Goodrich & Rosati, P.C.	
	650 Page Mill Road	
	Palo Alto, California 94304-1050	
	(650) 493-9300	
INDEPENDENT ACCOUNTANTS	PricewaterhouseCoopers LLP	
	10 Almaden Blvd., Suite 1600	
	San Jose, California 95113	
	(408) 817-3700	
CORPORATE HEADQUARTERS	Cypress Semiconductor Corporation	Telephone: (408) 943-2600
	198 Champion Court	Facsimile: (408) 943-4730
	San Jose, California 95134-1709	Internet: http://www.cypress.com
REGISTRAR AND TRANSFER AGENT	Computershare Trust Company, NA	
	PO Box 43078	
	Providence, RI 02940-3078	
	(781) 575-2879	

- ⁽¹⁾ Member of the Audit Committee
- ⁽²⁾ Member of the Compensation Committee
- ⁽³⁾ Member of the Nominating and Governance Committee
- ⁽⁴⁾ Member of the Operations Committee
- ⁽⁵⁾ Founder

The letter to Stockholders and "Management Discussion and Analysis" contain a number of forward-looking statements about the prospects for Cypress and its subsidiaries as well as the semiconductor industry more generally, which are based on our current information and expectations and could be affected by uncertainties and risk factors, including but not limited to those described in our Annual Report on Form 10-K, filed March 3, 2008. Our actual results may differ materially. We use words such as, "anticipates", "believes", "expects", "future", "planning", "intends" and similar expressions to identify forward-looking statements which include statements related to our prices, growth, supply, operations, shipments, our current and future products, profit and revenue.

PSoC and Cypress are registered trademarks of Cypress Semiconductor Corp. Programmable System-on-Chip, PSoC Designer, PSoC Express, West Bridge, and WirelessUSB are trademarks of Cypress Semiconductor Corp. SunPower is a registered trademark of SunPower Corp. Smart Solar is a trademark of SunPower Corp. Research In Motion, the RIM logo, BlackBerry, the BlackBerry logo and SureType are registered with the U.S. Patent and Trademark Office and may be pending or registered in other countries - these and other marks of Research In Motion Limited are used under license. Motorola is a registered trademark of Motorola Inc. ThermoBlade is a registered trademark of ThermoBlade Inc. iPublish and Merian are trademarks of iPublish GmbH. Slingbox is a registered trademark of Sling Media. Indesit is a registered trademark of Indesit Company SpA. HP is a registered trademark of Hewlett-Packard Development Company, L.P. Sequiam and SmartScan are trademarks of Sequiam Corp. JVC is a registered trademark of Victor Company of Japan Ltd. Continental is a trademark of Continental-Tyres Inc. SlimSwipe is a trademark of Semtek Corp. Korg is a registered trademark of Korg Inc. Pioneer is a trademark of Pioneer Corporation (Japan). Sonicare is a registered trademark of Philips Oral Healthcare, Inc. All other trademarks are the properties of their respective owners.

ANNUAL MEETING

The annual meeting of stockholders for Cypress Semiconductor Corporation will be held on Friday, May 9, 2008 10:00 a.m., local time, at Cypress's offices at 198 Champion Court, San Jose, California 95134-1709.

COMMON STOCK

Cypress Semiconductor Corporation's common stock is traded on the New York Stock Exchange under the symbol "CY."

FORM 10-K

A copy of Cypress's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 3, 2008, will be made available without charge to all stockholders upon written request to Cypress. Direct requests may be made to the Attention of the Chief Financial Officer at 198 Champion Court, San Jose, Calif. 95134-1709.

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 30, 2007

or

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

For the transition period from _____ to _____

Commission file number: 1-10079

CYPRESS SEMICONDUCTOR CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange
1.00% Convertible Subordinated Notes, due 2009	New York Stock Exchange

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

None

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

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

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

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

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

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

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

The market value of voting and non-voting common stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on July 1, 2007 as reported on the New York Stock Exchange, was approximately \$2.8 billion. Shares of common stock held by each executive officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded from the foregoing calculation in that such persons may be deemed affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 15, 2008, 152,707,107 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for registrant's Annual Meeting of Stockholders to be filed pursuant to Regulation 14A for the year ended December 30, 2007 are incorporated by reference in Items 10 - 14 of Part III of this Annual Report on Form 10-K.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Item 1 Business	4
Item 1A Risk Factors	20
Item 1B Unresolved Staff Comments	36
Item 2 Properties	37
Item 3 Legal Proceedings	38
Item 4 Submission of Matters to a Vote of Security Holders	39
PART II	
Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	40
Item 6 Selected Financial Data	42
Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations	43
Item 7A Quantitative and Qualitative Disclosure About Market Risk	72
Item 8 Financial Statements and Supplementary Data	75
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	158
Item 9A Controls and Procedures	158
Item 9B Other Information	159
PART III	
Item 10 Directors, Executive Officers and Corporate Governance	160
Item 11 Executive Compensation	160
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	160
Item 13 Certain Relationships and Related Transactions and Director Independence	161
Item 14 Principal Accountant Fees and Services	161
PART IV	
Item 15 Exhibits and Financial Statement Schedules	162
Signatures and Power of Attorney	168

FORWARD-LOOKING STATEMENTS

The discussion in this Annual Report on Form 10-K contains statements that are not historical in nature, but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including, but not limited to, statements as to our ability to develop and bring to market new programmable and proprietary products; our intent regarding our investment in SunPower; the rate of customer acceptance of our products and our ability to break into new markets and applications with our programmable products; our ability to increase the size of our customer base, our solution-based interaction with our customers; the general economy and its impact on the markets we serve; the changing environment and/or cycles of the semiconductor and solar power industries; the successful integration and achievement of the objectives of acquired businesses; competitive pricing; our ability to efficiently manage our manufacturing facilities and successfully transition to flexible manufacturing which leverages our internal and third-party foundries; the availability of raw materials, such as polysilicon, used in the manufacture of SunPower's products; the financial and operational performance of our subsidiaries; the adequacy of cash and working capital; risks related to investing in development stage companies; risks related to investing our cash; our ability to manage our interest rate and exchange rate exposure; and our expectations regarding our pending litigation and investigations and outstanding warranty liability. We use words such as "anticipates," "believes," "expects," "future," "intends," "plan," "will," and similar expressions to identify forward-looking statements. Such forward-looking statements are made as of the date hereof and are based on our current expectations, beliefs and intentions regarding future events or our financial performance and the information available to management as of the date hereof. Except as required by law, we assume no responsibility to update any such forward-looking statements. Our actual results could differ materially from those expected, discussed or projected in the forward-looking statements contained in this Annual Report on Form 10-K for any number of reasons, including, but not limited to, the materialization of one or more of the risks set forth above or in Item 1A.

PART I

On January 24, 2008, we issued a press release announcing our preliminary annual results for the year ended December 30, 2007. In the press release, we reported consolidated net income of \$399.2 million for the year ended December 30, 2007. Subsequent to the issuance of our press release, we recorded certain adjustments totaling \$4.9 million, which reduced our net income to \$394.3 million for the year ended December 30, 2007. For a more detailed discussion of these adjustments and a reconciliation of our preliminary results announced in the press release to our final results included in this Annual Report on Form 10-K, please see Item 7.

ITEM 1. BUSINESS

General

Our mission is to transform Cypress Semiconductor Corporation (“Cypress”) from a traditional, broad-line semiconductor company to a leading supplier of programmable solutions in systems everywhere. We deliver high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and system value. Our offerings include the Programmable System-on-Chip™ (“PSoC®”) products, universal serial bus (“USB”) controllers, general-purpose programmable clocks and memories. Cypress also offers wired and wireless connectivity solutions that enhance connectivity and performance in multimedia handsets and other systems. Cypress serves numerous markets including consumer, computation, data communications, automotive and industrial.

In addition, we are a majority shareholder of SunPower Corporation (“SunPower”), a publicly traded solar products and services company which designs, manufactures and markets high-performance solar electric power technologies. As of the end of fiscal 2007, Cypress held 44.5 million shares of SunPower’s class B common stock, representing approximately 56% of SunPower’s outstanding capital stock, 51% of SunPower’s outstanding capital stock on a fully diluted basis and 90% on a voting right basis. Please refer to SunPower’s Annual Report on Form 10-K for the year ended December 30, 2007 for a complete review and discussion of SunPower’s business, operations, financial condition and results of operations. The contents of SunPower’s Annual Report on Form 10-K are expressly not incorporated by reference herein.

As of the end of fiscal 2007, our organization included the following business segments:

Business Segments	Description
Consumer and Computation Division	a product division focusing on PSoC, USB and general-purpose timing solutions
Data Communications Division	a product division focusing on data communication devices for wireless handset and professional / personal video systems
Memory and Imaging Division	a product division focusing on static random access memories (“SRAM”), nonvolatile memories and image sensor products
SunPower	a majority-owned subsidiary of Cypress specializing in solar products and services
Other	includes Silicon Light Machines and Cypress Systems, both majority-owned subsidiaries of Cypress, certain foundry-related services and certain corporate expenses

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

We were incorporated in California in December 1982. The initial public offering of our common stock took place in May 1986, at which time our common stock commenced trading on the Nasdaq National Market. In February 1987, we were reincorporated in Delaware and in October 1988, we began listing our common stock on the New York Stock Exchange under the symbol “CY.” Our corporate headquarters are located at 198 Champion Court, San Jose, California 95134, and our main telephone number is (408) 943-2600. We maintain a website at www.cypress.com. The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K.

Our fiscal 2007 ended on December 30, 2007, fiscal 2006 ended on December 31, 2006 and fiscal 2005 ended on January 1, 2006. All three fiscal years contained 52 weeks.

Business Strategies

We have made substantial progress in our goal to become a leading programmable solutions company. In addition to building a comprehensive programmable product portfolio based on our PSoC platform, we have divested businesses that do not align with our long-term plans and have made a significant shift to flexible manufacturing. We have also added senior management with broad experience defining and bringing to market new generations of high-performance programmable and proprietary products.

We will continue to pursue the following key strategies:

- *Drive programmability*—We believe our proprietary programmable technology and programmable product leadership, led by our PSoC family of devices, is an important competitive advantage. Driven by current and anticipated demand, we plan to continue to define, design and develop new programmable products and solutions that offer our customers increased flexibility and efficiency, higher performance, and higher levels of integration.
- *Extend technology leadership and drive “PSoC Everywhere”*—The first and most important step of our programmability initiative is to drive “PSoC Everywhere,” meaning in any possible application. PSoC devices can be used in a wide array of applications ranging from MP3 players and handsets to running shoes, appliances, laptops and fitness equipment. The product’s easy-to-use PSoC Express™ programming software and broad range of development kits can facilitate rapid adoption across many different platforms.
- *Expand our customer base*—Cypress’s strategy is to grow its customer base through direct sales, independent sales representatives and distributors. Cypress, with its flagship PSoC products, is targeting tens of thousands of smaller customers who are looking to compete against larger competitors using the flexible, programmable PSoC platform.
- *Collaborate with customers to build system-level solutions*—Cypress works closely with customers from initial product design through manufacturing and delivery. Our sales, customer and technical support, product marketing and development efforts are organized to maximize our customers’ design efforts, helping them to speed time-to-market. Our engineering expertise is focused on developing whole product solutions, including software and reference designs.
- *Pursue flexible manufacturing*—Our manufacturing strategy combines capacity from leading foundries with output from Cypress’s internal manufacturing facilities. This initiative allows us to meet rapid swings in customer demand while lessening the burden of high fixed costs, a capability that is particularly important in high-volume consumer markets that we serve with our leading programmable product portfolio.

- *Implement “No More Moore” strategy*—With many of our leading programmable products no longer requiring aggressive linewidth reductions, we abandoned our longstanding commitment to independent process technology development based on Moore’s Law. We will continue to have access to leading-edge processes for our products that require world-class manufacturing processes through our foundry relationships.
- *Exit legacy or non-strategic, underperforming businesses*—A focused business will allow us to better achieve our current objectives. Over the past two years, we have divested certain business units that were inconsistent with our future business initiatives and long-term plans. Exiting these businesses will allow us to focus our current resources and efforts on the core business model.
- *Pursue complementary strategic relationships*—Complementary acquisitions can expand our markets and strengthen our competitive position. As part of our growth strategy, we continue to assess opportunities to develop strategic relationships, including acquisitions, investments and joint development projects with key partners and other businesses.
- *SunPower*—We are the majority stockholder of SunPower and will continue to work with SunPower to maintain its technology advantage, expand manufacturing capacity while reducing manufacturing costs, drive efficiency improvements through relationships with suppliers and customers, and develop a leading brand name.

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

Business Segments and Product / Service Overview

Consumer and Computation Division:

The Consumer and Computation Division designs and develops solutions for many of the world’s leading manufacturers of consumer and computation end products. Its programmable product offerings are the linchpin of our programmable solutions strategy. This division’s products include PSoC devices, the industry’s broadest selection of USB controllers and WirelessUSB products, general-purpose programmable clocks and programmable-radio-on-a-chip (“PRoC™”) products. PSoC products are used in various consumer applications such as MP3 players, mass storage, household appliances, laptop computers and toys. USB is used primarily in PC applications and is finding increased adoption rates in consumer devices such as MP3 players, mobile handsets and set-top boxes.

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

Products	Markets	Applications
PSoC	Consumer, handsets, industrial	Digital still and video cameras, appliances, handheld devices, notebook computers, LCD monitors, mice, keyboards, industrial interfaces, toys, e-Bikes
PRoC	PC peripherals, consumer, digital entertainment, health & fitness, medical, industrial	Home automation, temperature and voltage sensors, meter readings, toys and gaming devices, keyboards and mice, VoIP headsets
USB controllers	PC peripherals, consumer electronics	Mice, keyboards, handheld devices, gamepads and joysticks, VoIP phones, headsets, presenter tool, dongles, point of sale devices, bar code scanners
WirelessUSB	PC peripherals	Mice, keyboards, wireless headsets, consumer electronics, gamepads, remote controllers, toys, presenter tools
Programmable clocks . . .	Consumer, computation	Set-top boxes, copiers, printers, HDTV, industrial automation, printers, single-board computers, IP phones, storage devices, servers and routers
EZ-Color™ controllers . .	Architecture, entertainment	Flashlights, architectural lighting, general signage, entertainment lighting
RoboClock™ buffers . . .	Communications	Base stations, high-end telecom equipment (switches, routers), servers and storage

PSoC. Our PSoC products are mixed-signal arrays with an on-board microcontroller, providing a low-cost, single-chip solution for a variety of consumer, industrial and control applications. The mixed-signal arrays integrate a microcontroller and the analog and digital components that typically surround it in an embedded system. A single PSoC device can integrate as many as 100 peripheral functions with a microcontroller, saving customers design time, board space, power consumption, and system costs. Our PSoC CapSense™ device replaces dozens of mechanical switches and controls with simple, touch-sensitive controls. CapSense-based “button” and slider controls are more reliable than their mechanical counterparts because they are not prone to the environmental wear-and-tear that affects exposed buttons and switches. PSoC allows customers to modify designs at any time, providing unmatched flexibility.

PRoC. PRoC includes two of our technologies—WirelessUSB and PSoC—in one integrated device. It offers access to a general-purpose mixed-signal array with four programmable analog and four programmable digital blocks, 8 Kbytes of flash programmable memory storage, 512 bytes of SRAM data storage, an 8-bit microcontroller, and a powerful direct sequence spread spectrum 2.4 GHz radio system. It is an ideal solution for quickly implementing highly integrated, space-saving, low-cost, wireless systems operating in the worldwide 2.4-GHz ISM band.

USB Controllers. USB provides the primary connection between a PC and peripherals, including keyboards, mice, printers, joysticks, scanners and modems. It is also used to connect various non-PC systems, such as handheld games, digital still cameras and MP3 players. The USB standard facilitates a “plug-and-play” architecture that enables instant recognition and interoperability when a USB-compatible peripheral is connected to a system. We offer a full range of USB solutions, including low-speed (1.5 Mbps), full-speed (12 Mbps) and high-speed (480 Mbps) USB products. We also offer a

variety of USB hubs, transceivers, serial interface engines and embedded-host products for a broad range of applications.

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

Programmable Clocks. Programmable timing solutions such as Cypress’s InstaClock device combine high performance with the flexibility and fast time to market of field-programmable devices at a cost that is competitive against custom clocks at equivalent volumes. Working with our easy-to-use CyberClocks software, designers can optimize device parameters such as drive strength, phased-lock loop bandwidth and crystal input capacitive loading. Cypress’s programmable clocks are ideal for devices requiring multiple frequencies including Ethernet, PCI, USB, HDTV, and audio applications.

EZ-Color Controllers. Our EZ-Color family of devices offers the ideal control solution for high brightness (“HD”) light-emitting diode (“LED”) applications requiring intelligent dimming control. EZ-Color devices combine the power and flexibility of PSoC with Cypress’s precise illumination signal modulation drive technology providing lighting designers a fully customizable and integrated lighting solution platform. EZ-Color devices support up to 16 independent LED channels with up to 32 bits of resolution per channel, enabling lighting designers the flexibility to choose the LED array size and color quality. PSoC Express software, with lighting-specific drivers, can significantly cut development time and simplify implementation of fixed color points through temperature and LED binning compensation. EZ-Color’s virtually limitless analog and digital customization allow for simple integration of features in addition to intelligent lighting during the development process.

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

Data Communications Division:

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

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

Products	Markets	Applications
Peripheral bridge controllers	Consumer, mobile handsets	Cellular phones, portable media players, personal digital assistants, digital cameras, and printers.
Dual-port memories	Networking, telecommunication	Medical and instrumentation, storage, wireless infrastructure, military communications, image processors, base stations
First-in, first-out (“FIFO”) memories	Video, data communications, telecommunications, networking	Video, data communications, telecommunications, and network switching/routing
Physical layer devices	Data communications, consumer	Converters, professional video cameras, production switchers and video routers and servers, encoders and decoders
Programmable logic devices	Storage, military	Storage, military

Peripheral Bridge Controllers. Our West Bridge™ products enable direct connection between peripherals, creating ultra-fast transfers while offloading the main processor from data-intensive operations. The West Bridge family complements the main processor by adding support for next generation and latest standards and allowing simultaneous transfers between peripherals and processing elements. The inaugural product in the West Bridge family is Antioch. Antioch is a three-ported device designed specifically for handsets to provide a direct path from PC to handset mass storage, freeing baseband/applications processor resources by limiting its involvement in these high-density transfers. Additionally, Antioch creates simultaneous usage models by adding dedicated paths between the three ports to literally create multiple usage models such as using the handset as a modem, while downloading multimedia files, and playing music.

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

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

Physical Layer Devices. Our portfolio includes HOTLink, HOTLinkDX and HOTLinkII. These transceiver families cover data transmission rates of 50 Mbps up to 1.5 Gbps. These flexible devices are

ideal for proprietary serial backplane applications. They also comply with many industry standards such as 10 Gbps Ethernet, gigabit Ethernet, Fibre Channel, Enterprise System Connection, Digital Video Broadcast, and high-definition television. In addition, we supply a chipset for the transmission of digital video signals. This chipset is based on our HOTLink family and is widely used in professional digital video equipment such as editing, routing, recording and storage.

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

Memory and Imaging Division:

The Memory and Imaging Division consists of our memory business and image sensor business. Our memory business designs and manufactures SRAM products and nonvolatile memories (“nvSRAMs”) which are used to store and retrieve data in networking, wireless infrastructure and handsets, computation, consumer, automotive, industrial and other electronic systems. Our memory products target a variety of markets including networking, telecommunications, wireless communications and consumer applications. Our image sensor products are used in high-end industrial, medical and aeronautic applications.

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

Products	Markets	Applications
Asynchronous SRAMs	Consumer, networking	Consumer electronics, switches and routers, automotive, peripherals, industrial electronics
Synchronous SRAMs	Base station, networking	Wireline networking, wireless base stations, high bandwidth applications, industrial electronics
nvSRAMs	Servers, industrial	Redundant array of independent disk servers, point of sale terminals, set-top boxes, copiers, industrial automation, printers, single-board computers, gaming
Image sensors	Consumer, automotive	High volume cell phone, digital camera, medical equipment, digital photography, medical imaging

Asynchronous SRAMs. We manufacture a wide selection of fast asynchronous SRAMs with densities ranging from 16 Kbits to 4 Mbits. Our fast asynchronous portfolio includes the high-performance 16-bit-wide and 24-bit-wide families, which are optimized for the latest generation of fast digital signal processors. These memories are available in many combinations of bus widths, packages and temperature ranges and are ideal for use in network switches and routers, IP phones, IC testers, DSLAM Cards and automotive electronics.

Synchronous SRAMs. Our high-speed synchronous SRAMs include standard synchronous pipelined, No Bus Latency (“NoBL”), Quad Data Rate, and Double Data Rate SRAMs, and are typically used in networking applications. NoBL synchronous SRAMs are optimized for high-speed applications that require maximum bus bandwidth, including those in the networking, instrumentation, video and simulation businesses. Quad Data Rate products are targeted toward next-generation networking applications, particularly switches and routers that operate at data rates beyond 300 MHz. Double Data Rate SRAMs target network applications and servers that operate at data rates up to 400 MHz.

nvSRAMs. nvSRAMs are products that operate similar to standard Asynchronous SRAM and store the data into an internal array during power down. The key advantage of an nvSRAM is that it stores the data automatically and also has a longer endurance because all operations are through the SRAM array. Cypress makes high-speed nonvolatile SRAM devices that can store data for more than 20 years without battery backup, ensuring data integrity in the event of a power outage. The memories are ideal for copy machines, point-of-sale terminals, redundant array of independent disks (“RAID”) storage arrays and consumer electronics.

Image Sensors. Our CMOS image sensor portfolio includes ultra high-speed and high dynamic range imaging solutions for machine vision and motion analysis. Our LUPA-300, used in machine vision and motion-analysis applications, features a high frame rate and a fully synchronous snapshot shutter, enabling it to read one image while the next is being acquired and to capture moving objects without distortion.

Other:

Optical Navigation Sensors. Silicon Light Machines’ Ovation-ONS™ laser-based optical navigation sensor is targeted at high-end and mid-range wired and wireless mice. The sensor delivers fast and precise tracking on more surfaces than other sensors on the market, using our patented OptiCheck™ technology, which offers outstanding accuracy and a variable resolution ranging from 800 to 2,400 counts per inch. The sensors target the gaming, desktop and mobile mouse, high-precision trackball, and industrial applications.

Cypress Systems. Newly formed in fiscal 2006, Cypress Systems is a subsidiary of Cypress which provides and introduces new technologies to older industrial plants and buildings to reduce cost, improve productivity, extend asset life, and improve safety and compliance. Cypress Systems develops and markets products and services for industrial and commercial end-users. It combines the broad portfolio of unique technologies from Cypress with its deep domain and applications experience in Industrial Automation and HVAC to create unique solutions that reduce cost and improve productivity for plants and buildings.

SunPower

SunPower is a vertically integrated solar products and services company that designs, manufactures and markets high-performance solar electric power technologies. Its solar cells and solar panels are manufactured using proprietary processes and technologies based on more than 15 years of research and development. SunPower believes that its solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity, of all the solar cells available for the mass market. SunPower’s solar power systems and system technologies, which generate electric energy, integrate solar cells and panels manufactured by SunPower as well as other suppliers.

SunPower generates sales from two businesses:

- (1) Components, which generate revenues from sales of SunPower’s solar cells, solar panels and inverters to solar systems installers and other resellers; and

- (2) Systems, which generates revenues from sales of engineering, procurement, construction projects and other services relating to solar electric power systems.

SunPower was incorporated in 1985 as a California corporation. In November 2005, SunPower was reincorporated in Delaware. Its initial public offering took place in November 2005, at which time its class A common stock commenced trading on the Nasdaq Global Market.

Product and Service Overview:

Solar Cells. Solar cells are semiconductor devices that directly convert sunlight into electricity. SunPower's A-300 solar cell is a silicon solar cell with a specified power value of 3.1 watts and a conversion efficiency of between 20% and 21.5%. SunPower's next generation solar cell delivers 3.3 watts with efficiency of up to 22.7% and started shipping in fiscal 2007. SunPower's solar cells are designed without highly reflective metal contact grids or current collection ribbons on the front of the solar cells. This feature enables SunPower's solar cells to be assembled into solar panels that exhibit a more uniform appearance than conventional solar panels.

Solar Panels. Solar panels are solar cells electrically connected together and encapsulated in a weatherproof package. SunPower believes solar panels made with its solar cells are the highest efficiency solar panels available for the mass market. Because SunPower's solar cells are more efficient relative to conventional solar cells, when SunPower's solar cells are assembled into panels, the assembly cost per watt is less because more power can be incorporated into a given size package. Higher solar panel efficiency allows installers to mount a solar power system with more power within a given roof or site area and can reduce per watt installation costs.

Inverters. Inverters transform direct current electricity produced by solar panels into the more common form of alternating current electricity. Inverters are used in virtually every on-grid solar power system and typically feed power either directly into the home electrical circuit or into the utility grid. In North America, SunPower sells a line of branded inverters specifically designed for use in residential and commercial systems. SunPower's inverter product line currently includes approximately twelve models spanning a power range of 2.5 to 5.2 kilowatts. SunPower's packaged system designs optimize performance through the appropriate combination of these inverters with its solar panels.

Solar Power Systems. SunPower offers solar electric power system technology that integrates solar cells and solar panels to convert sunlight to electricity. These systems are principally designed to be used in large-scale utility, commercial, public sector and production home applications. These products include roof-mounted solar panel mounting systems that delivers reliable, clean electricity while insulating and protecting the roofs, pre-engineered solar panels that tilt at a 10-degree angle to generate more annual energy output than traditional flat roof-mounted systems, solar power shingle roofing system utilizing SunPower's A-300 solar cell technology that is designed to integrate with conventional residential roofing materials, ground-mounted solar power tracking systems that automatically pivot solar panels to track the sun's movement throughout the day, and solar power systems for parking structures in multiple configurations.

In addition, SunPower provides customers and partners with a variety of services, including solar power system design, energy efficiency, financial consulting and analysis, construction management and maintenance and monitoring.

Acquisition

The markets in which we compete require a wide variety of technologies, products and capabilities. As discussed above, we are committed to the ongoing evaluation of strategic opportunities and, where appropriate, to the acquisition of additional products, technologies or businesses that are complementary to, or broaden the markets for, our products.

In fiscal 2007, SunPower completed the acquisition of PowerLight Corporation (“PowerLight”), now known as SunPower Corporation, Systems (“SP Systems”), for a total purchase consideration and future stock compensation of \$334.4 million. PowerLight developed, engineered, manufactured and delivered large-scale solar power systems for residential, commercial, government and utility customers worldwide. SunPower believes that the acquisition enables it to develop the next generation of solar products and solutions that will accelerate reduction in solar system cost to compete with retail electric rates without incentives and simplify and improve customer experience.

Divestitures

During fiscal 2007, we continued our efforts to transform Cypress from a traditional, broad-line semiconductor company to a leading supplier of programmable system solutions. This mission is the focus of a restructuring effort that has included, among other initiatives, the divestitures of product families and businesses that do not align with our long-term business plan. The following table summarizes the divestitures we have completed in fiscal 2007:

Product Families/Businesses	Reportable Segments	Buyers	Consideration
A portion of Image Sensors	Memory and Imaging Division	Sensata Technologies	\$11.0 million in cash
Silicon Valley Technology Center . . .	Other	Semiconductor Technology Services	\$53.0 million in cash
A portion of Network Search Engines	Data Communications Division	NetLogic Microsystems	\$14.4 million in cash

Manufacturing

During fiscal 2007, Cypress manufactured approximately 83% of its semiconductor products at the wafer manufacturing facilities in Round Rock, Texas and Bloomington, Minnesota. Wafer foundries manufactured the balance of Cypress’s products.

In December 2007, Cypress’s Board of Directors approved a plan to exit its manufacturing facility in Texas and transfer production to its more cost-competitive facility in Minnesota and outside foundries. Since all of Cypress’s newer products are being designed on more advanced process technologies, management believes that it is more cost effective to shift manufacturing elsewhere than to retool the Texas facility. Cypress’s Minnesota manufacturing facility offers state-of-the-art technology and there is currently sufficient cost-competitive foundry capacity in Asia enabling Cypress to achieve lower manufacturing costs. Cypress expects to complete the exit plan by the end of fiscal 2008.

Cypress’s decision to exit the Texas facility is consistent with management’s flexible manufacturing initiative, which combines capacity from leading foundries with output from Cypress’s internal manufacturing facilities. The initiative allows Cypress to meet rapid swings in customer demand while lessening the burden of high fixed costs, a capability that is particularly important in high-volume consumer markets that Cypress serves with its leading programmable product portfolio.

In December 2005, Cypress entered into a strategic foundry partnership with Grace Semiconductor Manufacturing Corporation (“Grace”), located in Shanghai, China. Under the terms of the agreement, Cypress transferred certain of its proprietary process technologies to Grace. This agreement provides additional production capacity to augment output from Cypress’s manufacturing facilities. During fiscal 2006, Cypress completed the transfer of its 0.35-micron SONOS process to Grace and began purchasing products from Grace that were manufactured using this process. During fiscal 2007, Cypress completed the transfer of its 0.13-micron SRAM and LOGIC processes and began purchasing products from Grace that were manufactured using these processes.

Cypress conducts assembly and test operations at its highly automated assembly and test facility in the Philippines. This facility accounted for approximately 52% of the total assembly output and 79% of the total test output in fiscal 2007. Various subcontractors in Asia performed the balance of the assembly and test operations.

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

SunPower manufactures solar cells at its manufacturing facilities in the Philippines. SunPower currently operates seven solar cell manufacturing lines with a total rated manufacturing capacity of approximately 214 megawatts per year. By the end of fiscal 2008, SunPower plans to operate 12 solar cell manufacturing lines with an aggregate manufacturing capacity of 414 megawatts per year.

SunPower manufactures solar panels at its panel manufacturing factory located in the Philippines. SunPower's solar panels are also manufactured by a third-party subcontractor in China. SunPower currently operates three solar panel manufacturing lines with a rated manufacturing capacity of 90 megawatts per year. In addition, SunPower's branded inverters are manufactured by multiple suppliers.

SunPower manufactures certain of its solar power system products at the manufacturing facilities in California and at other facilities located close to its customers. Some of its solar power system products are also manufactured by third-party suppliers.

Raw Materials—Polysilicon

Polysilicon is an essential raw material in SunPower's production of solar cells. SunPower procures silicon ingots from suppliers on a contractual basis and then slices these ingots into wafers. The ingots are sliced and the wafers are processed into solar cells in SunPower's Philippines manufacturing facility. SunPower also purchases wafers and polysilicon from third-party vendors.

There is currently an industry-wide shortage of polysilicon, which has resulted in significant price increases. SunPower expects that the average spot price of polysilicon will continue to increase in the near-term. Even with these price increases, demand for solar cells has increased, and many of SunPower's principal competitors have announced plans to add additional manufacturing capacity. As this manufacturing capacity becomes operational, it may increase the demand for polysilicon in the near-term and further exacerbate the current shortage. Polysilicon is also used in the semiconductor industry generally and any increase in demand from that sector will compound the shortage. The production of polysilicon is capital intensive and adding additional capacity requires significant lead time. While SunPower is aware that several new facilities for the manufacture of polysilicon are under construction, SunPower does not believe that the supply imbalance will be remedied in the near-term. SunPower expects that polysilicon demand will continue to outstrip supply through much of 2008 and potentially for a longer period.

There are a limited number of polysilicon suppliers. Many of SunPower's competitors also purchase polysilicon from the same suppliers. Some of the competitors also have inter-locking board members with their polysilicon suppliers or have entered into joint ventures or binding supply contracts with their suppliers. Additionally, a substantial amount of SunPower's future polysilicon requirements are expected to be sourced by new suppliers that have not yet proven their ability to manufacture large volumes of polysilicon. In some cases, SunPower expects that new entrants will provide it with both polysilicon and ingots. The failure of these new entrants to produce adequate supplies of polysilicon and/or ingots in the quantities and quality SunPower requires could adversely affect its ability to grow

production volumes and revenues and could also result in a decline in SunPower's and Cypress's gross profit margins.

See Item 1A for further discussion of additional risks associated with the polysilicon supply and the potential financial impact of these risks on SunPower and Cypress.

Research and Development

Research and development expenses are focused on the development and design of new semiconductor and solar power products, as well as the continued development of advanced software platforms primarily for our programmable solutions. Our goal is to increase efficiency in order to maintain our competitive advantage. Our research and development organization works closely with our manufacturing facilities, suppliers and customers to improve our semiconductor and solar cell designs and lower manufacturing costs. For fiscal 2007, 2006 and 2005, research and development expenses totaled \$187.8 million, \$242.3 million and \$225.9 million, respectively.

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

Customers, Sales and Marketing

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

SunPower sells its solar power products to system integrators and original equipment manufacturers. SunPower's direct and indirect systems customers include commercial and governmental entities, investors, electric utilities, production homebuilders and homeowners. SunPower markets and sells solar electric power technologies worldwide through a direct sales force. SunPower has direct sales personnel or representatives in Spain, Germany, Italy, Singapore, Switzerland, Korea and the United States. SunPower also partners with certain value-added resellers ("VARs") throughout the world. To the extent SunPower sells through VARs, SunPower may provide system design and support services while the VARs are responsible for construction, maintenance and service. SunPower's marketing programs include conferences and technology seminars, sales training, public relations and advertising. SunPower's sales and marketing group works closely with the research and development and manufacturing groups to align its product development roadmap. SunPower's sales and marketing group also coordinates product development activities, product launches and ongoing demand and supply planning with the development, operations and sales groups, as well as with SunPower's customers, direct sales representatives and distributors. SunPower supports its customers through our field application engineering and customer support organizations.

No customers accounted for more than 10% of our consolidated revenues for fiscal 2007 and 2006. One customer of Cypress, a distributor, accounted for 11% of our consolidated revenues for fiscal 2005.

Backlog

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

SunPower's revenues from the systems business are primarily comprised of engineering, procurement and construction projects which are governed by customer contracts that require SunPower to deliver functioning solar power systems and are generally completed within six to 36 months from the date of the contract signing. In addition, SunPower's systems business also derives revenues from sales of certain solar power products and services that are smaller in scope than the engineering, procurement and construction contracts. The backlog represents the uncompleted portion of these contracts and totaled approximately \$446.9 million as of December 30, 2007, of which approximately \$435.9 million is expected to be completed during fiscal 2008. Although these engineering, procurement and construction contracts are often cancelable by the customers under certain situations, SunPower has not experienced significant contract cancellations in the past. In addition, revenues and related costs from these projects are often subject to delays or scope modifications based on change orders agreed to with the customers, or changes in the estimated construction costs to be incurred in completing the project. Accordingly, the backlog may not be a meaningful indicator of future revenues for any particular period of time.

Competition

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

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

Cypress faces competition from domestic and foreign semiconductor manufacturers, many of which have advanced technological capabilities and have increased their participation in the markets in which we operate. We compete with a large number of companies primarily in the telecommunications, networking, data communications, computation and consumer markets. Companies who compete directly with our semiconductor businesses include Altera, Analog Devices, Applied Micro Circuits, Atmel, Integrated Device Technology, Integrated Silicon Solution, Lattice Semiconductor, Linear

Technology, Microchip Technology, National Semiconductor, OmniVision Technologies, Pericom Semiconductor, PMC-Sierra, Silicon Laboratories, Standard Microsystems, Synaptics and Xilinx.

SunPower faces competition from solar power product manufacturers, including BP Solar International, Evergreen Solar, First Solar, Kyocera, Mitsubishi Electric, Motech, Q-Cells, Sanyo, Sharp, SolarWorld and Suntech Power Holdings. In addition, in the large-scale on-grid solar power systems market, SunPower competes directly with a number of companies that manufacture, distribute or install solar power systems. These competitors in the United States include BP Solar International, Conergy, DT Solar, Elecnor, EI Solutions, GE Energy, Global Solar Energy, Power-Fab, Schott Solar, Solar Integrated Technologies, SPG Solar, Sun Edison, Sunlink, SunTechnics Installation and Services, Thompson Technology Industries, and WorldWater and Power Corporation. SunPower's systems competitors in Europe include BP Solar, City Solar, Conergy (through its subsidiaries AET Alternitive Energie Technik, SunTechnics Solartechnik and Voltwerk), PV-Systemtechnik, SAG Solarstrom, Solon and Taufer Solar.

If we are not able to compete successfully in this environment, our business, operating results and financial condition will be harmed.

Environmental Regulations

We use, generate and discharge hazardous chemicals and waste in our research and development and manufacturing activities. United States federal, state and local regulations, in addition to those of other countries in which we operate, impose various environmental rules and obligations, which are becoming increasingly stringent over time, intended to protect the environment and in particular on the management and disposal of hazardous substances. We are committed to the continual improvement of our environmental systems and controls. However, we cannot provide assurance that we have been, or will at all times be, in complete compliance with all environmental laws and regulations. Other laws impose liability on owners and operators of real property for any contamination of the property even if they did not cause or know the contamination. While to date we have not experienced any material adverse impact on our business from environmental regulations, we cannot provide assurance that environmental regulations will not impose expensive obligations on us in the future, or otherwise result in the incurrence of liability such as the following:

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

Intellectual Property

We have an active program to obtain patent and other intellectual property protection for our proprietary technologies, products and other inventions that are aligned with our strategic initiatives. We rely on a combination of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position in the domestic and international markets we serve. As of the end of fiscal 2007, we had approximately 1,800 issued patents and approximately 1,000 additional patent applications on file domestically and internationally. In addition, in fiscal 2008, we are preparing to file more than 185 new patent applications in the United States and 50 foreign applications in countries such as China, Taiwan, Korea and India.

In addition to factors such as innovation, technological expertise and experienced personnel, we believe that patents are increasingly important to remain competitive in our industry and to facilitate

the entry of our proprietary products, such as PSoC, into new markets. As our technologies are deployed in new applications and we face new competitors, we will likely subject ourselves to new potential infringement claims. Patent litigation, if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources. Therefore, the strength of our intellectual property program, including the breadth and depth of our portfolio, will be critical to our success in the new markets we intend to pursue.

Financial Information about Geographic Areas

Financial information about geographic area is incorporated herein by reference to Note 21 of Notes to Consolidated Financial Statements under Item 8.

International revenues historically accounted for a significant portion of our total revenues. Our operations in the Philippines, as well as our sales offices and design centers in other parts of the world, face risks frequently associated with foreign operations, including:

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

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

Employees

As of the end of fiscal 2007, we had approximately 7,900 employees worldwide, which included approximately 4,400 Cypress employees and 3,500 SunPower employees. Geographically, approximately 4,700 employees were located in the Philippines, 2,400 employees were located in the United States and 800 employees were located in other countries. Of the total employees, approximately 6,000 employees were associated with manufacturing, 900 employees were associated with research and development, and 1,000 employees were associated with the selling, general and administrative functions.

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

Executive Officers

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

Name	Age	Position
T. J. Rodgers	59	President, Chief Executive Officer and Director
Brad W. Buss	43	Executive Vice President, Finance and Administration and Chief Financial Officer
Ahmad R. Chatila	41	Executive Vice President, Memory and Imaging Division
Sabbas A. Daniel	45	Executive Vice President, Quality
Paul D. Keswick	50	Executive Vice President, New Product Development
Dinesh Ramanathan	38	Executive Vice President, Data Communications Division
Christopher A. Seams	45	Executive Vice President, Sales and Marketing
Shahin Sharifzadeh	43	Executive Vice President, Manufacturing and Operations
Norman P. Taffe	41	Executive Vice President, Consumer and Computation Division
<i>Subsidiary Management:</i>		
Harry Sim	45	Chief Executive Officer, Cypress Systems
Thomas H. Werner	47	Chief Executive Officer, SunPower
Hal Zarem	48	Chief Executive Officer, Silicon Light Machines

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

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

Ahmad R. Chatila was appointed Executive Vice President, Memory and Imaging Division, in 2005, and assumed responsibility for Cypress's back-end manufacturing operations in 2007. Prior to his current position, Mr. Chatila served as Managing Director of the low power memory business unit in the Memory and Imaging Division. Mr. Chatila has been with Cypress since 1991, and has held a number of management roles in wafer technology development, manufacturing and sales.

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

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

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

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

Shahin Sharifzadeh was named Executive Vice President, Manufacturing and Operations, in 2005. Dr. Sharifzadeh directs our process technology research and development and manufacturing operations worldwide. Prior to his current position, Dr. Sharifzadeh served as Vice President, Research and Development, where he was responsible for all aspects of technology development. Dr. Sharifzadeh joined Cypress in 1989.

Norman P. Taffe was named Executive Vice President, Consumer and Computation Division, in 2005. Prior to his current position, Mr. Taffe has held numerous positions, including Marketing Director of the programmable logic and interface products divisions, Managing Director of our mergers and acquisitions and venture funds, Managing Director of the wireless business unit and most recently, Vice President of the Personal Communications Division. Mr. Taffe joined Cypress in 1989.

Harry Sim was appointed Chief Executive Officer of Cypress Systems in 2006. Prior to joining Cypress Systems, Mr. Sim was with Honeywell from 1991 to 2006, where he was most recently Global Vice President of Marketing for Honeywell's industrial process control business. In addition, Mr. Sim has held various executive positions in general management, strategy, and mergers and acquisitions at Honeywell.

Thomas H. Werner has served as SunPower's Chief Executive Officer and as a member of SunPower's board of directors since 2003. Prior to joining SunPower, Mr. Werner served as Chief Executive Officer of Silicon Light Machines from 2001 to 2003. Prior to Silicon Light Machines, Mr. Werner was a vice president and general manager at 3Com Corp. Mr. Werner currently serves as a board member of Cree, Inc. and Silicon Light Machines.

Hal Zarem has served as Chief Executive Officer of Silicon Light Machines since 2003. Dr. Zarem joined Silicon Light Machines in 2002 as Vice President, Sales and Marketing. Prior to joining Silicon Light Machines, Dr. Zarem held several management positions within the sales and marketing organizations at JDS Uniphase. Dr. Zarem also served as a general manager at Ortel Corporation.

Available Information

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

ITEM 1A. RISK FACTORS

WE ARE A MAJORITY SHAREHOLDER OF SUNPOWER. UNDER THIS SECTION, WE HAVE INCLUDED CERTAIN IMPORTANT RISK FACTORS THAT SPECIFICALLY IMPACT SUNPOWER'S BUSINESS, OPERATIONS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. FOR MORE DISCUSSION OF SUNPOWER AND THE RISKS AFFECTING SUNPOWER, INVESTORS SHOULD REFER TO SUNPOWER'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 30, 2007. THE CONTENTS OF SUCH ANNUAL REPORT ON FORM 10-K ARE EXPRESSLY NOT INCORPORATED BY REFERENCE HEREIN.

The trading price for Cypress's common stock has been and may continue to be volatile and can be affected by the trading price of SunPower's class A common stock and/or speculation about the possibility of future actions we might take in connection with our SunPower holdings.

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

- quarterly variations in our results of operations or those of our competitors;
- announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships or capital commitments;
- perceptions of general market conditions in the semiconductor industry and global market conditions;
- our ability to develop and market new and enhanced products on a timely basis;
- any major change in our board or management;
- changes in governmental regulations or in the status of our regulatory compliance;
- recommendations by securities analysts or changes in earnings estimates concerning us;
- announcements about our earnings that are not in line with analyst expectations;
- announcements by our competitors of their earnings that are not in line with analyst expectations;
- short sales, hedging and other derivative transactions on shares of our common stock;
- economic conditions and growth expectations in the markets in which our customers participate; and
- general economic conditions.

In addition, the implied market value of SunPower's class B common stock we hold has, since SunPower's initial public offering, been significant relative to the total value of Cypress's outstanding common stock. As a result, the trading price of Cypress's common stock has been and likely will continue to be affected by the trading price for SunPower's class A common stock, actions taken or statements made by us, SunPower or others concerning the potential separation of SunPower from us, and other factors related to SunPower's business.

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

The solar power industry is currently experiencing an industry-wide shortage of polysilicon. This shortage poses several risks to SunPower's business, including possible constraints on revenue growth and possible decreases in SunPower's and Cypress's gross margins and profitability.

Polysilicon is an essential raw material in the production of SunPower's solar cells. SunPower procures silicon ingots from suppliers on a contractual basis and then slice the ingots into wafers. The ingots are sliced and the wafers are processed into solar cells in SunPower's Philippines manufacturing facility. SunPower also purchases wafers and polysilicon from third-party vendors.

There is currently an industry-wide shortage of polysilicon, which has resulted in significant price increases. SunPower expects that the average spot price of polysilicon will continue to increase in the near-term. Increases in polysilicon prices have in the past increased SunPower's manufacturing costs and may impact SunPower's manufacturing costs and net income in the future. Even with these price increases, demand for solar cells has increased, and many of SunPower's principal competitors have announced plans to add additional manufacturing capacity. As this manufacturing capacity becomes operational, it may increase the demand for polysilicon in the near-term and further exacerbate the current shortage. Polysilicon is also used in the semiconductor industry generally and any increase in demand from that sector will compound the shortage. The production of polysilicon is capital intensive and adding additional capacity requires significant lead time. While SunPower is aware that several new facilities for the manufacture of polysilicon are under construction, SunPower does not believe that the supply imbalance will be remedied in the near-term. SunPower expects that polysilicon demand will continue to outstrip supply through much of fiscal 2008 and potentially for a longer period.

Although SunPower has arrangements with vendors for the supply of what it believes will be an adequate amount of silicon ingots through fiscal 2008, SunPower's purchase orders are sometimes non-binding in nature. SunPower's estimates regarding its supply needs may not be correct, and purchase orders or contracts may be cancelled by its suppliers. Additionally, the volume and pricing associated with these purchase orders and contracts may be changed by SunPower's suppliers based on market conditions or for other reasons. If SunPower's suppliers were to cancel purchase orders or change the volume or pricing associated with them, SunPower may be unable to meet customer demand for its products, which could cause SunPower to lose customers, market share and revenue. This would have a material negative impact on SunPower's and Cypress's business and operating results. If SunPower's manufacturing yields decrease significantly, SunPower adds manufacturing capacity faster than currently planned or SunPower's suppliers cancel or fail to deliver, SunPower may not have made adequate provision for polysilicon needs for its manufacturing plans through fiscal 2008.

In addition, since some of SunPower's silicon ingot and wafer arrangements are with suppliers who do not themselves manufacture polysilicon but instead purchase their requirements from other vendors, these suppliers may not be able to obtain sufficient polysilicon to satisfy their contractual obligations to SunPower.

There are a limited number of polysilicon suppliers. Many of SunPower's competitors also purchase polysilicon from the same suppliers. Some of them also have inter-locking board members with their polysilicon suppliers or have entered into joint ventures or binding supply contracts with their suppliers. Additionally, a substantial amount of SunPower's future polysilicon requirements are expected to be sourced by new suppliers that have not yet proven their ability to manufacture large volumes of polysilicon. In some cases, SunPower expects that new entrants will provide it with polysilicon, ingots and/or wafers. The failure of these new entrants to produce adequate supplies of polysilicon, ingots and/or wafers in the quantities and quality SunPower requires could adversely affect SunPower's ability to grow production volumes and revenues and could also result in a decline in SunPower's gross profit margins. Since SunPower has committed to significantly increase its manufacturing output, an inadequate supply of polysilicon would harm SunPower more than it would harm some of its competitors.

Additionally, the steps SunPower has taken to further increase the efficiency of its polysilicon utilization are unproven at volume production levels and may not enable SunPower to realize the cost reductions it anticipates. Given the polysilicon shortage, SunPower believes the efficient use of polysilicon will be critical to its ability to reduce manufacturing costs. SunPower continues to implement several measures to increase the efficient use of polysilicon in its manufacturing process. Although SunPower has implemented production using thinner wafers and anticipates further reductions in wafer thickness, these methods may have unforeseen negative consequences on its yields or solar cell

efficiency or reliability once they are put into large-scale commercial production, or they may not enable SunPower to realize the cost reductions it hopes to achieve.

SunPower's inability to obtain sufficient polysilicon, ingots or wafers at commercially reasonable prices or at all for any of the foregoing reasons, or otherwise, would adversely affect its ability to meet existing and future customer demand for its products and could cause SunPower to make fewer shipments, lose customers and market share and generate lower than anticipated revenue, thereby seriously harming SunPower's and Cypress's business, financial condition and results of operations.

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

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

- wireless telecommunications equipment;
- computers and computer-related peripherals;
- memory and image sensors;
- networking equipment;
- consumer electronics, automotive electronics and industrial controls; and
- solar power products.

In addition, certain of our products, including USB micro-controllers and clocks, are incorporated into computer and computer-related products, which have historically experienced, and may in the future experience, significant fluctuations in demand. Any downturn or reduction in the growth of these industries could seriously harm our business, financial condition and results of operations.

We order materials and build our products based primarily on our internal forecasts and secondarily on existing orders, which may be cancelled under many circumstances. Because our markets are volatile and subject to rapid technological and price changes, our forecasts may be wrong causing us to make too many or too few of certain products. Also, our customers frequently place orders requesting product delivery almost immediately after the order is made, which makes forecasting customer demand even more difficult, particularly when supply is abundant. If we experience inadequate demand or a significant shift in the mix of product orders that makes our existing capacity and capability inadequate, our fixed costs per semiconductor produced will increase, which will harm our financial condition and results of operations. Alternatively, if we should experience a sudden increase in demand, we will need to quickly ramp our inventory and/or manufacturing capacity to adequately respond to our customers. If we are unable to ramp our inventory or manufacturing capacity in a timely manner or at all, we risk losing our customers' business, which could have a negative impact on our financial performance and reputation.

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

The semiconductor industry is intensely competitive. This intense competition results in a difficult operating environment that is marked by erosion of average selling prices over the life of each product and rapid technological change resulting in limited product life cycles. In order to offset selling price decreases, we attempt to decrease the manufacturing costs of our products and to introduce new, higher priced products that incorporate advanced features. If these efforts are not successful or do not

occur in a timely manner, or if our newly introduced products do not gain market acceptance, our business, financial condition and results of operations could be seriously harmed.

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

- our success in developing new products, software platforms and manufacturing technologies;
- the quality and price of our products;
- the diversity of our product line;
- the cost effectiveness of our design, development, manufacturing and marketing efforts, especially as compared to our competitors;
- our customer service;
- our customer satisfaction;
- our ability to successfully execute our flexible fab initiative;
- the pace at which customers incorporate our products into their systems;
- the number, strength and nature of our competitors, the markets they target and the rate of their technological advances;
- general economic conditions; and
- our access to and the availability of capital.

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

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

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

Despite the significant amount of resources we commit to new products, there can be no guarantee that such products will perform as expected or at all, or gain market acceptance. If we fail to introduce new product designs in a timely manner or are unable to manufacture products according to the requirements of these designs, or if our customers do not successfully introduce new systems or products incorporating our products, or market demand for our new products does not exist as anticipated, our business, financial condition and results of operations could be seriously harmed.

The complex nature of our manufacturing activities makes us highly susceptible to manufacturing problems and these problems can have a 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, defects in the

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

In addition, the manufacturing of SunPower's solar cells is a highly complex process. Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases, cause production to be suspended or yield no output. SunPower has from time to time experienced lower than anticipated manufacturing yields. This often occurs during the production of new products or the installation and start-up of new process technologies or equipment. As SunPower expands its manufacturing capacity and bring additional lines or facilities into production, SunPower may experience lower yields initially as is typical with any new equipment or process. SunPower also expects to experience lower yields as SunPower continues the initial migration of its manufacturing processes to thinner wafers. If SunPower does not achieve planned yields, its product costs could increase, and product availability would decrease resulting in lower revenues than expected.

We are increasingly dependent upon third-parties to manufacture, distribute and transport our products and problems in the performance or availability of these companies could seriously harm our financial performance.

Although a portion of our products are currently fabricated in our manufacturing facilities located in Texas, Minnesota and the Philippines, we rely to a significant extent on independent contractors to manufacture our products. We expect to increase this reliance on third party manufacturing in the future. For example, in December 2007, our Board of Directors approved a plan to exit our manufacturing facility in Texas and transfer production to our more cost-competitive facility in Minnesota and outside foundries. In addition, if market demand for our products exceeds our internal manufacturing capacity and available capacity from our foundry partners, we may seek additional foundry manufacturing arrangements.

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

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

Our channel partners include distributors and resellers. We continue to expand and change our relationships with our distributors and see an increase in the proportion of our revenues generated

from our distributor channel in the future. For example, during the first quarter of fiscal 2008, we intend to negotiate new terms with some of the distributors in Asia and under these new terms, these distributors will be provided with price protection and stock rotation rights. We rely on many distributors to assist us in creating customer demand, providing technical support and other value-added services to our customers, filling customer orders and stocking our products. We face ongoing business risks due to our reliance on our channel partners to create and maintain customer relationships where we have a limited or no direct relationship. Should our relationships with our channel partners or their effectiveness decline, we face risk of declining demand which could affect our results of operations. In addition, our distributors are located all over the world and are of various sizes and financial conditions. Any disruptions to our distributors' operations could have an adverse impact on our business, including the implementation of new terms for our distributors in Asia as discussed above.

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

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

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

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

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

SunPower will continue to be dependent on a limited number of third-party suppliers for key components for its solar systems products during the near-term, which could prevent SunPower from delivering products to its customers within required timeframes, which could result in installation delays, cancellations, liquidated damages and loss of market share.

In addition to SunPower's reliance on a small number of suppliers for its solar cells and panels, SunPower relies on third-party suppliers for key components for its solar power systems, such as inverters that convert the direct current electricity generated by solar panels into alternating current

electricity usable by the customer. If SunPower fails to develop or maintain its relationships with its limited suppliers, it may be unable to manufacture its products or its products may be available only at a higher cost or after a long delay, which could prevent SunPower from delivering its products to customers within required timeframes and SunPower may experience order cancellation and loss of market share. To the extent the processes that SunPower's suppliers use to manufacture components are proprietary, SunPower may be unable to obtain comparable components from alternative suppliers. The failure of a supplier to supply components in a timely manner, or to supply components that meet SunPower's quality, quantity and cost requirements, could impair SunPower's ability to manufacture its products or decrease its costs. If SunPower cannot obtain substitute materials on a timely basis or on acceptable terms, SunPower could be prevented from delivering its products to customers within required timeframes, which could result in installation delays, cancellations, liquidated damages and loss of market share, any of which could have a material adverse effect on SunPower's and Cypress's business and results of operations.

A limited number of SunPower's customers are expected to continue to comprise a significant portion of SunPower's total revenues and any decrease in revenue from these customers could have a material adverse effect on SunPower and Cypress.

Even though SunPower's customer base is expected to increase and its revenue streams to diversify, a substantial portion of SunPower's net revenues could continue to depend on sales to a limited number of customers. The loss of sales to these customers would have a significant negative impact on SunPower's business. SunPower's agreements with these customers may be cancelled if SunPower fails to meet certain product specifications or materially breach the agreement or in the event of bankruptcy, and SunPower's customers may seek to renegotiate the terms of current agreements or renewals.

If the market for solar power products takes longer to develop than SunPower anticipates or does not develop at all, or if SunPower fails to compete successfully in the solar power market, its revenue and profitability could be adversely affected.

The market for solar power products manufactured by SunPower is emerging and rapidly evolving. If solar power technology proves unsuitable for widespread commercial deployment or if demand for SunPower's products or solar power products generally fails to develop sufficiently or at all, SunPower's revenues and profitability could be adversely affected. In addition, demand for solar power products in the markets and geographic regions SunPower targets may develop more slowly than it anticipates or not at all. Many factors will influence the adoption of solar power technology as well as SunPower's ability to compete in the solar power products market, including:

- cost effectiveness of solar power technologies as compared with conventional and non-solar alternative energy technologies;
- performance and reliability of solar power products as compared with conventional and non-solar alternative energy products;
- success in developing new products and manufacturing technologies;
- ability to continue to ramp SunPower's manufacturing capacities;
- the quality and price of SunPower's products;
- the availability of the raw materials, including polysilicon, used in the production of solar cell products;
- the number and nature of SunPower's competitors and general economic conditions;
- access to and the availability of capital;

- success of alternative power generation technologies;
- fluctuations in economic and market conditions which impact the viability of conventional and non-solar alternative energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- the possibility of future product failures and the warranty implications thereof;
- availability of, and dependence on, subsidies and other incentives provided by various governmental agencies; and
- existing or future regulations and policies that may present additional technical, economic or regulatory barriers.

SunPower recognizes most of its revenues generated from SP Systems on a “percentage of completion” basis and upon the achievement of contractual milestone, so any delay or cancellation of a project could adversely affect SunPower’s and Cypress’s business and results of operations.

SP Systems, which was acquired by SunPower in fiscal 2007, recognizes revenue on a “percentage of completion” basis and, as a result, the revenue from this business is driven by the performance of its contractual obligations, which is generally driven by the timelines of installation of its solar power systems at customer sites. The percentage-of-completion method of accounting for revenue recognition is inherently subjective because it relies on management estimates of total project cost as a basis for recognizing revenue and profit. Accordingly, revenue and profit SunPower has recognized under the percentage-of-completion method are potentially subject to adjustments in subsequent periods based on refinements in estimated costs of project completion that could materially impact SunPower’s future revenue and profit.

As with any project-related business, there is the potential for delays within any particular customer project. Variation of project timelines and estimates may impact SunPower’s ability to recognize revenue in a particular period. Moreover, incurring penalties involving the return of the contract price to the customer for failure to timely install one project could negatively impact SunPower’s ability to continue to recognize revenue on a “percentage of completion” basis generally for other projects. In addition, certain customer contracts may include payment milestones due at specified points during a project. Because SP Systems usually must invest substantial time and incur significant expense in advance of achieving milestones and the receipt of payment, failure to achieve such milestones could adversely affect SunPower’s and Cypress’ business and results of operations.

The reduction or elimination of government and economic incentives could cause SunPower’s revenue to decline and harm SunPower’s and Cypress’s financial results.

The market for on-grid applications, where solar power is used to supplement a customer’s electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government and economic incentives. Because a majority of SunPower’s sales are in the on-grid market, the reduction or elimination of government and economic incentives would adversely affect the growth of this market or result in increased price competition, either of which could cause SunPower’s revenue to decline and harm SunPower’s and Cypress’s financial results.

Today, the cost of solar power exceeds retail electric rates in many locations. As a result, federal, state and local government bodies in many countries, most notably Germany, Japan, Spain, Italy, Portugal, France, South Korea and the United States, have provided incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. These government economic incentives could be reduced or eliminated altogether. For example, Spain has been a strong supporter of solar power

products and systems and political changes in Spain could result in significant reductions or eliminations of incentives, including the reduction of feed-in tariffs. In the United States, the federal incentive tax credit for solar installations expires in its current form at the end of fiscal 2008, and many commercial customers and third-party financiers are increasingly unwilling to purchase solar systems unless this tax credit is extended. Some solar program incentives expire, decline over time, are limited in total funding or require renewal of authority. Net metering and other operational policies in California or other markets could limit the amount of solar power installed there. Reductions in, or eliminations or expirations of, governmental incentives could result in decreased demand for and lower revenue from SunPower's products. Changes in the level or structure of a renewable portfolio standard could also result in decreased demand for and lower revenue from SunPower's products.

During fiscal 2007, a significant share of systems revenues were derived from sales of solar power systems to companies formed to develop and operate solar power generation facilities. Such companies have been formed by third-party investors with some frequency in the United States, Spain, South Korea, and Portugal, as these investors seek to benefit from government mandated feed-in tariffs and similar legislation. SunPower's business depends in part on the continuing formation of such companies and the potential revenue source they represent. In deciding whether to form and invest in such companies, potential investors weigh a variety of considerations, including their projected return on investment. Such projections are based on current and proposed federal, state and local laws, particularly tax legislation. Expiration of or changes to these laws, including expiration of the U.S. solar incentive tax credit, amendments to existing tax laws or the introduction of new tax laws, tax court rulings as well as changes in interest rates, administrative guidelines, ordinances and similar rules and regulations could result in different tax assessments and may adversely affect an investor's projected return on investment, which could have a material adverse effect on SunPower's and Cypress's business and results of operations.

The execution of SunPower's growth strategy for its systems business is dependent upon the continued availability of third-party financing arrangements for its customers.

For many of SunPower's projects, customers have entered into agreements to pay SunPower over an extended period of time based on energy savings generated by SunPower's solar power systems, rather than pay the full capital cost of purchasing the solar power systems up front. For these types of projects, many of SunPower's customers choose to purchase solar electricity under a power purchase agreement with a financing company that purchases the system from SunPower. These structured finance arrangements are complex and may not be feasible in many situations. In addition, customers opting to finance a solar power system may forgo certain tax advantages associated with an outright purchase on an accelerated basis which may make this alternative less attractive for certain potential customers. If customers are unwilling or unable to finance the cost of SunPower's products, or if the parties that have historically provided this financing cease to do so, or only do so on terms that are substantially less favorable for SunPower or these customers, SunPower's growth will be adversely affected.

The success of SunPower's systems business will depend in part on the continuing formation of such companies and the potential revenue source they represent. In deciding whether to form and invest in such companies, potential investors weigh a variety of considerations, including their projected return on investment. Such projections are based on current and proposed federal, state and local laws, particularly tax legislation. Changes to these laws, including amendments to existing tax laws or the introduction of new tax laws, tax court rulings as well as changes in administrative guidelines, ordinances and similar rules and regulations could result in different tax consequences which may adversely affect an investor's projected return on investment, which could have a material adverse effect on SunPower's and Cypress's business and results of operations.

Third parties may seek to hold Cypress responsible for liabilities of SunPower.

Third parties may seek to hold Cypress responsible for SunPower's liabilities. Under Cypress's separation agreements with SunPower, SunPower will indemnify Cypress for claims and losses relating to liabilities related to SunPower's business and not related to Cypress's business. However, if those liabilities are significant and Cypress is ultimately held liable for them, we cannot assure you that Cypress will be able to recover the full amount of Cypress's losses from SunPower.

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

From time to time we have shared our views in press releases or SEC filings, on public conference calls and in other contexts about current business conditions and our expectations as to potential future results. Correctly identifying the key factors affecting business conditions and predicting future events is inherently an uncertain process. Our analyses and forecasts have in the past and, given the complexity and volatility of our business, will likely in the future, prove to be incorrect. We offer no assurance that such predictions or analyses will ultimately be accurate, and investors should treat any such predictions or analyses with appropriate caution.

In addition, we consolidate SunPower's financial results in the results of operations we report to the public in press releases and our SEC filings. SunPower's financial performance may be affected by a number of factors, including, but not limited to:

- the average selling price of its solar cells and modules;
- the availability and pricing of raw materials, particularly polysilicon;
- the rate and cost at which it is able to expand its manufacturing capacity to meet customer demand;
- timing, availability and changes in government incentive programs;
- unplanned additional expenses such as manufacturing failures, defects or downtime;
- the loss of one or more key customers or the significant reduction or postponement of orders from these customers;
- foreign currency fluctuations, particularly in the Euro or Philippine peso;
- currency fluctuations and the effect of its currency hedging activities;
- changes in the relative sales mix of its component and system businesses;
- the availability, pricing and timeliness of delivery of other products, such as inverters, necessary for its solar power products to function;
- its ability to successfully integrate and reap the benefits of the SP Systems acquisition;
- decreases in the overall average selling prices of its solar power products and imaging detectors; and
- increases or decreases in electric rates due to fossil fuel prices.

Any analysis or forecast that we make which ultimately proves to be inaccurate may adversely affect our stock price.

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

The protection of our intellectual property rights, as well as those of our subsidiaries, is essential to keeping others from copying the innovations that are central to our existing and future products. It may be possible for an unauthorized third party to reverse-engineer or decompile our software products. The process of seeking patent protection can be long and expensive and we cannot be certain that any currently pending or future applications will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. Furthermore, our flexible fab initiative and SunPower's polysilicon partnerships require us to enter into technology transfer agreements with external partners, providing third party access to our intellectual property and resulting in additional risk. In some cases, these technology transfer and/or license agreements are with foreign companies and subject our intellectual property to foreign countries which may afford less protection and/or result in increased costs to enforce such agreements. We anticipate that we will continue to enter into these kinds of licensing arrangements in the future. Consequently, we may become involved in litigation, in the United States or abroad, to enforce our patents or other intellectual property rights, to protect our trade secrets and know-how, to determine the validity or scope of the proprietary rights of others or to defend against claims of invalidity. We are also from time to time involved in litigation relating to alleged infringement by us of others' patents or other intellectual property rights. Moreover, a key element of our strategy is to enter new markets with our PSoC products. If we are successful in entering these new markets, we will likely be subject to additional risks of potential infringement claims against us as our technologies are deployed in new applications and face new competitors. We may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights, particularly in certain international markets, making misappropriation of our intellectual property more likely. Patent litigation, if necessary or if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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

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

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

We are currently a party to various legal proceedings, claims, disputes, litigation and investigations. For example, the Antitrust Division of the Department of Justice ("DOJ") is currently conducting an investigation into possible antitrust violations in the static random access memories ("SRAM") industry. In addition, in connection with the DOJ investigation, we are defendants in purported consumer class action lawsuits alleging various claims under the Sherman Antitrust Act, state antitrust laws and unfair competition laws. Our financial results could be materially and adversely impacted by unfavorable outcomes to any of these or other pending or future litigation or investigation. There can be no assurances as to the outcome of any litigation or investigation. Although management believes it has meritorious defenses to each of these matters and intends to vigorously defend itself, such litigation, investigations and other claims are subject to inherent uncertainties and management's view of these matters may change in the future. There exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which the effect of an unfavorable final outcome becomes probable and reasonably estimable.

Unfavorable outcome of examinations of our tax returns by tax authorities could have a material impact on our results of operations and financial position.

Our tax returns are subject to examination by various tax authorities in countries in which we operate. The Internal Revenue Service (“IRS”) is conducting an audit of our federal income tax returns for fiscal 2003 and 2004. During fiscal 2006, non-U.S. tax authorities commenced tax audits of our subsidiaries in the Philippines and India. As of December 30, 2007, no material adjustments to our tax liabilities have been proposed by the IRS or other foreign tax authorities. However, the IRS and the other foreign tax authorities have not completed their examinations. If material adjustments result from the conclusion of the examinations, our results of operations and financial position could be materially impacted. Furthermore, we could become engaged in a dispute with the IRS on any material adjustments proposed by the IRS, which could be costly and distracting to our management and business.

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

International revenues historically accounted for a significant portion of our total revenues. Our manufacturing, assembly and test operations located in the Philippines, as well as our international sales offices and design centers, face risks frequently associated with foreign operations including:

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

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

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

To a greater degree than most non-technology companies, we depend on the efforts and abilities of certain key members of management and other technical personnel. Our future success depends, in part, upon our ability to retain such personnel and to attract and retain other highly qualified personnel, particularly product and process engineers. We compete for these individuals with other companies, academic institutions, government entities and other organizations. Competition for such personnel is intense and we may not be successful in hiring or retaining new or existing qualified personnel. 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 are subject to many different environmental, health and safety laws, regulations and directives, and compliance with them may be costly.

We are subject to many different international, federal, state and local governmental laws and regulations related to, among other things, the storage, use, discharge and disposal of toxic, volatile or

otherwise hazardous chemicals used in our manufacturing process and the health and safety of our employees. Compliance with these regulations can be costly. We cannot assure you that we have been, or will be at all times in complete compliance with such laws and regulations. If we violate or fail to comply with these laws and regulations, we could be fined or otherwise sanctioned by the regulators. Under certain environmental laws, we could be held responsible, without regard to fault, for all of the costs relating to any contamination at our or our predecessors' past or present facilities and at third party waste disposal sites. We could also be held liable for any and all consequences arising out of human exposure to such substances or other environmental damage. In addition, in December 2007, our Board of Directors approved a plan to exit our manufacturing facility in Texas. In the course of exiting this facility, we could discover and/or need to address one or more environmental regulatory issues, which could result in significant costs or disruption to our business.

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

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

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

Cypress's and SunPower's headquarters in California, manufacturing facilities in the Philippines and some of our major vendors' facilities are located near major earthquake faults or are subject to seasonal typhoons. We have not been able to maintain insurance coverage at reasonable costs. Instead, we rely on self-insurance and preventative/safety measures. If a major earthquake or other natural disaster occurs, we may need to spend significant amounts to repair or replace our facilities and equipment and we could suffer damages that could seriously harm our business, financial condition and results of operations.

The failure to integrate our business and technologies with those of companies that we or SunPower may acquire could adversely affect our financial results.

We and SunPower have made acquisitions and pursued other strategic relationships in the past and may pursue additional acquisitions in the future. If we or SunPower fail to integrate these businesses successfully, our financial results may be seriously harmed. Integrating these businesses, people, products and services with our existing business could be expensive, time-consuming and a strain on our

resources. Specific issues that we and SunPower face with regard to prior and future acquisitions include:

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

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

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

Actions taken by activist stockholders may consume our Board of Directors and management's time and attention.

Campaigns by activist investors to effect changes at publicly traded companies have increased in recent years. In some cases, such campaigns are led by investors seeking to increase short term shareholder value through actions such as cost reductions, changes in strategy or management, changes to the board, restructuring, increased financial leverage, increased dividends or stock repurchases or sales of businesses or the entire company. We have been approached by investors urging our Board of Directors and management to, among other things, take action in connection with our investment in SunPower. While our Board of Directors and management believe a dialogue with stockholders can be healthy and value enhancing, activist investor campaigns can consume significant time and attention on the part of our Board of Directors and senior management, which may divert their attention away from matters related to the operations of our business. Such diversions could adversely affect our results of operations and financial condition.

We have significant amounts of debt and our substantial indebtedness could adversely affect our business, financial condition, results of operations, earnings per share and our ability to meet our payment obligations.

We have significant amounts of outstanding indebtedness and substantial debt service requirements. In December 2007, the common stock price conversion test for our convertible notes was triggered, giving the holders the right to convert their notes at their option during the first quarter of fiscal 2008. If the holders elect to convert their notes, we would be required to make significant cash payments to the holders. Our ability to meet our payment and other obligations under our indebtedness depends on our ability to generate significant cash flow. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. There is no assurance that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or any amended credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our indebtedness and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations (including upon conversion of any notes), we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the convertible notes.

In addition, our convertible notes have negatively impacted the calculation of our diluted earnings per share. Under the treasury stock method, the increase in our stock price in fiscal 2007 resulted in more dilutive shares related to our convertible notes and warrants issued in conjunction with the convertible notes. In the future, our stock price could continue to be volatile, and if our stock price increases, it could further impact our diluted earnings per share.

We may not have the ability to repurchase the convertible notes in cash upon the occurrence of a fundamental change, or to pay cash upon the conversion of notes, as required by the indenture governing the notes.

Holders of the notes will have the right to require us to repurchase the notes upon the occurrence of a fundamental change or conversions of the notes, as defined in the indenture governing the notes. We may not have sufficient funds to repurchase the notes or to make the required repayment at such time or have the ability to arrange necessary financing on acceptable terms. In addition, upon conversion of the notes we will be required to make cash payments to the holders of the notes equal to at least the lesser of the principal amount of the notes being converted and the conversion value of those notes. Such payments could be significant, and we may not have sufficient funds to make them at such time.

A fundamental change may also constitute an event of default under, or result in the acceleration of the maturity of, our then-existing indebtedness. Our ability to repurchase the notes in cash or make any other required payments may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. Our failure to repurchase the notes or pay cash in respect of conversions when required would result in an event of default with respect to the notes, which could seriously harm our business, financial condition and results of operations.

In addition, a default under the indenture could lead to a default under existing and future agreements governing our indebtedness. If, due to a default, the repayment of related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay such indebtedness and the notes, which could seriously harm our business, financial condition and results of operations.

Furthermore, should a fundamental change occur prior to maturity, up to an additional 6.7 million shares of Cypress's common stock could be issued, which would adversely impact our diluted earnings per share calculation.

The proposed FASB Staff Position on convertible debt could result in higher reported interest expense related to our convertible debt, which could materially impact our results of operations and earnings per share.

In September 2007, the FASB issued a proposed FASB Staff Position on the accounting for convertible debt instruments with terms similar to our convertible notes issued in fiscal 2007. The proposed guidance would require the issuer to separately account for the liability and equity components of the convertible debt in a manner that reflects interest expense equal to the issuer's non-convertible notes' borrowing rate. This would result in a debt discount that would subsequently be amortized over the term of the instrument, resulting in an increase in non-cash interest expense. If this proposed guidance is issued in its final form, it will materially impact our financial condition, results of operations and earnings per share.

If the recent worsening of credit market conditions continues or increases, it could have a material adverse impact on our investment portfolio.

Recent U.S. sub-prime mortgage defaults have had a significant impact across various sectors of the financial markets, causing global credit and liquidity issues. The short-term funding markets experienced credit issues during the second half of fiscal 2007 and continuing into the first quarter of fiscal 2008, leading to liquidity disruption in asset-backed commercial paper and failed auctions in the auction rate market. If the global credit market continues to deteriorate, our investment portfolio may be impacted and we could determine that some of our investments are impaired. This could materially adversely impact our results of operations and financial condition.

Our investment portfolio includes auction rate securities, which are investments with contractual maturities generally between 20 to 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations whose interest rates are reset every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the United States Federal Department of Education. In addition, all auction rate securities held by us are rated by the major independent rating agencies as either AAA or Aaa.

Most of these auction rate securities were scheduled to reset subsequent to December 30, 2007. As of February 28, 2008, a portion of our auction rate securities have failed auctions, and we expect that the remaining auction rate securities will fail, due to sell orders exceeding buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. In the event we need to access the funds associated with failed auctions, they are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured.

We determined that no other-than-temporary impairment losses existed as of December 30, 2007 as all holdings had successful auctions. However, if the issuer of the auction rate securities is unable to successfully close future auctions or does not redeem the auction rate securities, or the United States government fails to support its guaranty of the obligations, we may be required to adjust the carrying value of the auction rate securities and record other-than-temporary impairment charges in future periods, which could materially affect our results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our executive offices are located in San Jose, California. The following tables summarize our primary properties as of the end of fiscal 2007:

Cypress's Properties:

Location	Square Footage	Primary Use
Owned:		
United States:		
San Jose, California	310,000	Administrative offices, research and development
Bloomington, Minnesota	278,000	Manufacturing, research and development
Round Rock, Texas	100,000	Manufacturing, research and development
Lynnwood, Washington	69,000	Administrative offices, research and development
Asia:		
Cavite, the Philippines	221,000	Manufacturing, research and development
Laguna, the Philippines	215,000	Manufacturing, research and development
Leased:		
Asia:		
Bangalore, India	136,000	Research and development
Manila, the Philippines	12,000	Administrative offices
Europe:		
Mechelen, Belgium	16,000	Administrative offices, research and development

SunPower's Properties:

Location	Square Footage	Primary Use
Owned:		
Asia:		
Batangas, the Philippines	344,000	Manufacturing, research and development
Leased:		
United States:		
Richmond, California	250,000	Administrative offices, manufacturing, research and development
San Jose, California(1)	51,000	Administrative offices
Asia:		
Laguna, the Philippines(1)	215,000	Manufacturing, research and development
Laguna, the Philippines	46,000	Manufacturing, research and development
Europe:		
Geneva, Switzerland	4,000	Administrative offices

- (1) SunPower leases the office building located in San Jose, California and the manufacturing facility located in Laguna, the Philippines, from Cypress. See Note 2 of Notes to Consolidated Financial Statements under Item 8.

We have additional leases for sales offices and design centers located in the United States, Asia and Europe. As of the end of fiscal 2007, we believe that our current properties are suitable and adequate for our foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS

In August 2006, Quantum Research Group added Cypress as a defendant in a lawsuit in the United States District Court, District of Baltimore, Maryland. The amended complaint served on Cypress alleges patent infringement, defamation, false light and unfair competition related to Cypress's PSoC microcontroller product as specifically programmed for a single customer. In June 2007, the parties received the claim construction order, and discovery and depositions have been completed since that time. Motions for summary judgment which, if granted, could end the case in Cypress's favor are currently pending. Cypress is being indemnified by a third party for this litigation. Cypress has reviewed and investigated the allegations and believes it has meritorious defenses to these allegations and will vigorously defend itself in this matter.

In October 2006, Cypress received a grand jury subpoena issued from the U.S. District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice ("DOJ") into possible antitrust violations in the SRAM industry. In December 2007, the Korean Federal Trade Commission ("KFTC") opened a criminal investigation into this same market. Cypress has made, and will continue to make available employees, documents and other relevant information to the DOJ's Antitrust Division to support the investigation. Cypress expects to provide the same assistance to the KFTC. Cypress has reviewed and investigated the allegations and believes it has meritorious defenses to these allegations and will vigorously defend itself in this matter.

In connection with the DOJ investigation discussed above, in October 2006, Cypress, along with a majority of the other SRAM manufacturers, was sued in over 82 purported consumer class action suits in various United States Federal District Courts. The cases variously allege claims under the Sherman Antitrust Act, state antitrust laws and unfair competition laws. The lawsuits seek restitution, injunction and damages in an unspecified amount. The cases are now consolidated in the U.S. District Court for the Northern District of California. The cases have been largely stayed with the exception of document production which Cypress continues to deliver to plaintiffs. In addition to the federal class action lawsuits, Cypress, along with a number of the SRAM manufacturers, was also sued in purported consumer anti-trust class action suits in three separate provinces in Canada. The Florida Attorney General's office has also filed a civil investigative demand on behalf of all Florida SRAM consumers. Cypress is engaged in document production in this matter that is consistent with the production being made to the civil plaintiffs and the DOJ. Cypress believes it has meritorious defenses to these allegations and will vigorously defend itself in these matters.

Cypress, along with several other co-defendants, is currently party to trade secret misappropriation litigation filed by Silvaco Data Systems in Santa Clara Superior Court in May 2004. The cell characterization software at issue in this case was previously purchased by Cypress and the co-defendants from Circuit Semantics, a business no longer in operation. Prior to filing this suit against Cypress, Silvaco sued and later settled with Circuit Semantics for misappropriation of certain of Silvaco's trade secrets. Silvaco's complaint against Cypress alleges that Cypress misappropriated Silvaco's trade secrets by using Circuit Semantics' software previously purchased by Cypress. The Cypress trial, which began in September 2007 and was the first among the five co-defendants, is currently stayed pending an appeal of a preliminary ruling related to a statute of limitations issue. While Cypress has been engaged in the appeal process, three of the four remaining defendants have prevailed on motions for summary judgment that would result in a dismissal of the case, on facts and arguments similar to Cypress's case. Silvaco has appealed these rulings. Cypress believes it has meritorious defenses to the allegations and will vigorously defend itself in this matter.

We are currently a party to various other legal proceedings, claims, disputes and litigation arising in the ordinary course of business. Based on our own investigations, we do not believe the ultimate outcome of our current legal proceedings, individually and in the aggregate, will have a material

adverse effect on our financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of such litigation and investigations, should the outcome of these actions be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

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

None.

PART II

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

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

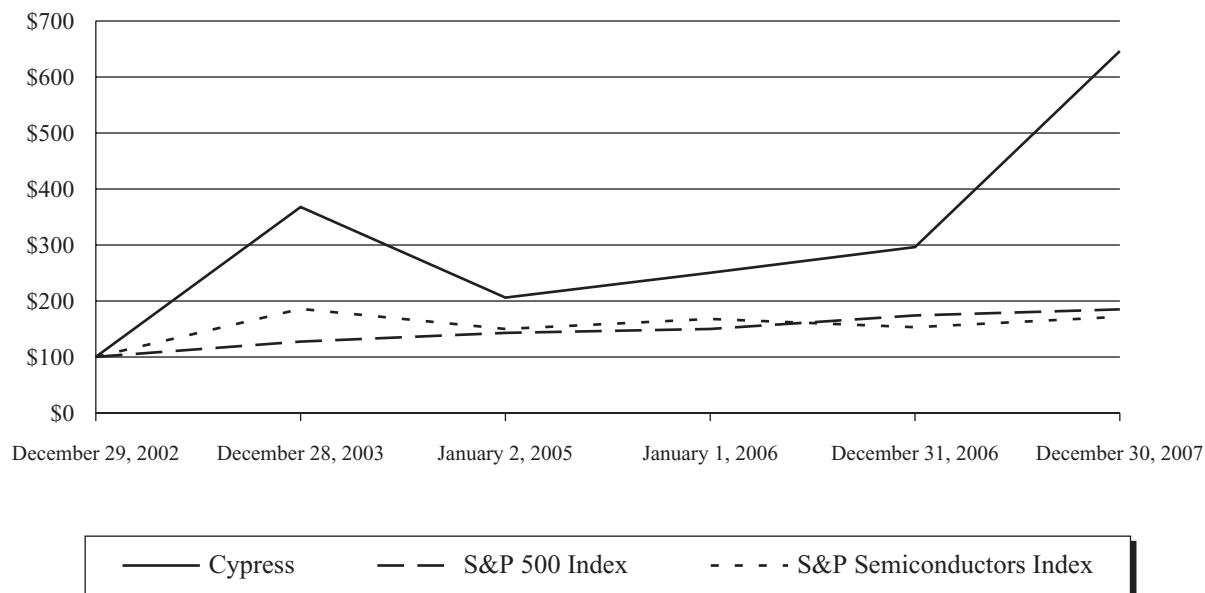
Cypress's common stock is listed on the New York Stock Exchange under the trading symbol "CY." The following table sets forth the sales price per share for our common stock:

	Low	High
Fiscal 2007:		
First quarter	\$16.48	\$20.04
Second quarter	\$18.54	\$24.00
Third quarter	\$23.22	\$29.65
Fourth quarter	\$28.49	\$42.79
Fiscal 2006:		
First quarter	\$14.09	\$18.79
Second quarter	\$13.40	\$18.80
Third quarter	\$13.04	\$17.95
Fourth quarter	\$15.92	\$20.42

As of February 15, 2008, there were approximately 71,200 holders of record of our common stock.

We have not paid cash dividends and have no present plans to do so.

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



	December 29, 2002	December 28, 2003	January 2, 2005	January 1, 2006	December 31, 2006	December 30, 2007
Cypress	\$100	\$368	\$206	\$250	\$296	\$646
S&P 500	\$100	\$127	\$143	\$150	\$174	\$185
S&P Semiconductors Index . . .	\$100	\$186	\$150	\$168	\$153	\$172

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plan Information:

The following table summarizes certain information with respect to Cypress's common stock that may be issued under the existing equity compensation plans as of December 30, 2007:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
(In thousands, except per-share amounts)			
Equity compensation plans approved by shareholders . .	22,398(1)	\$15.69(2)	5,857(3)
Equity compensation plans not approved by shareholders . .	3,952	\$21.35	2,448(4)
Total	<u>26,350(5)</u>	\$16.80	<u>8,305</u>

- (1) Includes 6.8 million shares of restricted stock units granted.
- (2) Excludes the impact of 6.8 million shares of restricted stock units which have no exercise price.
- (3) Includes (a) 4.7 million shares available for future issuance under Cypress's 1994 Amended Plan and (b) 1.2 million shares available for future issuance under Cypress's Employee Stock Purchase Plan.
- (4) Includes shares available for future issuance under Cypress's 1999 Plan.
- (5) Total number does not include approximately 0.1 million outstanding options, with a weighted-average exercise price of \$6.37 per share, originally granted under plans assumed by Cypress in connection with various acquisitions. Cypress does not intend to grant any additional options under these plans.

See Note 7 of Notes to Consolidated Financial Statements under Item 8 for further discussion of Cypress's stock plans.

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Stock Repurchase Program:

We have one outstanding stock repurchase program, which was authorized by our Board of Directors in the first quarter of fiscal 2007 for up to \$300.0 million. The authorization allows Cypress to purchase its common stock, its outstanding 1.00% convertible senior notes or to enter into equity derivative transactions related to its common stock. Stock repurchases under the program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. This stock repurchase program may be limited or terminated at any time without prior notice. As of December 30, 2007, no shares have been repurchased and \$300.0 million remained outstanding under this program.

The following table sets forth information with respect to repurchases of our common stock made during the fourth quarter of fiscal 2007:

Periods	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Total Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2007—				
October 28, 2007	—	\$ —	—	\$300,000,000
October 29, 2007—				
November 25, 2007	—	\$ —	—	\$300,000,000
November 26, 2007—				
December 30, 2007	—	\$ —	—	\$300,000,000
Total	—	\$ —	—	\$300,000,000

During the first quarter of fiscal 2008, our Board of Directors approved an additional \$300.0 million under the stock repurchase program, bringing the total amount that may be used for stock repurchases to \$600.0 million. As of February 28, 2008, we used \$269.1 million in cash to repurchase a total of 12.2 million shares at an average price of \$22.02 under the stock repurchase program, leaving \$330.9 million available for future expenditure.

ITEM 6. SELECTED FINANCIAL DATA

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

	Year Ended				
	December 30, 2007	December 31, 2006	January 1, 2006	January 2, 2005	December 28, 2003
	(In thousands, except per-share amounts)				
Statement of Operations Data:					
Revenues	\$1,596,387	\$1,091,553	\$ 886,396	\$ 948,438	\$ 836,756
Restructuring and acquisition-related costs	\$ (60,667)	\$ (16,362)	\$ (67,435)	\$ (54,334)	\$ (27,530)
Gain on divestitures	\$ 17,958	\$ 14,730	\$ —	\$ —	\$ —
Operating income (loss)	\$ 12,171	\$ 26,937	\$ (92,497)	\$ (1,382)	\$ (8,304)
Gain on sale of SunPower's common stock	\$ 373,173	\$ —	\$ —	\$ —	\$ —
Income (loss) before income taxes and minority interest	\$ 398,277	\$ 52,710	\$ (93,217)	\$ (2,021)	\$ (3,554)
Net income (loss)	\$ 394,300	\$ 39,482	\$ (92,153)	\$ 24,698	\$ (5,331)
Net income (loss) per share:					
Basic	\$ 2.53	\$ 0.28	\$ (0.69)	\$ 0.20	\$ (0.04)
Diluted	\$ 2.30	\$ 0.25	\$ (0.69)	\$ 0.17	\$ (0.04)
Shares used in per-share calculation:					
Basic	155,559	140,809	133,188	124,580	121,509
Diluted	171,836	179,271	133,188	134,130	121,509

	As of				
	December 30, 2007	December 31, 2006	January 1, 2006	January 2, 2005	December 28, 2003
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments .	\$1,426,405	\$ 580,174	\$ 330,308	\$ 244,897	\$ 198,617
Working capital	\$ 572,992	\$ 676,789	\$ 435,110	\$ 330,270	\$ 307,716
Total assets	\$3,725,949	\$2,123,525	\$1,697,874	\$1,572,994	\$1,575,685
Debt	\$1,025,000	\$ 598,996	\$ 601,538	\$ 606,724	\$ 615,724
Stockholders' equity	\$1,720,432	\$1,045,559	\$ 757,135	\$ 660,358	\$ 569,188

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

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

Adjustments to Previously Announced Preliminary Annual Results

On January 24, 2008, we issued a press release announcing our preliminary annual results for the year ended December 30, 2007. In the press release, we reported net income of \$399.2 million in the Consolidated Statements of Operations for the year ended December 30, 2007. Subsequent to the issuance of our press release, we recorded certain adjustments to our reported results relating to: (1) stock-based compensation, (2) the impact of a foreign currency remeasurement of a long-term tax liability, and (3) a reduction in the tax provision. These adjustments totaled \$4.9 million, which reduced our net income to \$394.3 million for the year ended December 30, 2007.

Stock-based compensation: The additional stock-based compensation expense was primarily a result of the achievement of certain performance-based restricted stock units granted in fiscal 2007 that was contingent upon our performance relative to a pre-determined peer group. At the time of the press release, management was unable to determine whether the achievement had been met as certain companies in the peer group had not publicly reported their financial results. Since the issuance of our press release, these companies have reported their results and we were able to determine that the milestone related to these performance-based restricted stock units has been achieved. As a result, we recorded an additional \$2.1 million of stock-based compensation for the year ended December 30, 2007. Additionally, on February 20, 2008, the Compensation Committee of the Board of Directors made a discretionary award of 40,000 fully vested restricted stock units to T.J. Rodgers, our President and Chief Executive Officer. As this grant was based upon his performance in fiscal 2007, stock-based compensation expense of \$0.9 million related to the restricted stock units was recorded for the year ended December 30, 2007.

Foreign currency remeasurement: We recorded an additional foreign currency exchange loss of \$4.8 million due to the remeasurement of a long-term tax liability, which was denominated in a foreign currency, into the United States dollar at the end of fiscal 2007.

Reduction in tax provision: We recorded a \$2.9 million reduction in our tax provision as a result of recalculating certain available foreign tax credits recorded during fiscal 2007.

The following table presents a reconciliation of the preliminary net income and net income per share announced in our press release on January 24, 2008 to the final results reported in this Annual Report on Form 10-K:

	Year Ended December 30, 2007
	(In thousands, except per- share amounts)
Net income announced on January 24, 2008	\$399,150
Adjustments:	
Stock-based compensation expense	(2,967)
Foreign currency exchange loss	(4,760)
Reduction in tax provision	2,877
Net income reported in Annual Report on Form 10-K	<u>\$394,300</u>
Net income per share:	
Basic—announced on January 24, 2008	\$ 2.57
Basic—reported in Annual Report on Form 10-K	\$ 2.53
Diluted—announced on January 24, 2008	\$ 2.32
Diluted—reported in Annual Report on Form 10-K	\$ 2.30

Executive Summary

General:

Our mission is to transform Cypress Semiconductor Corporation (“Cypress”) from a traditional, broad-line semiconductor company to a leading supplier of programmable solutions in systems everywhere. We deliver high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and system value. Our offerings include the Programmable System-on-Chip™ (“PSoC®”) products, universal serial bus (“USB”) controllers, general-purpose programmable clocks and memories. Cypress also offers wired and wireless connectivity solutions that enhance connectivity and performance in multimedia handsets and other systems. Cypress serves numerous markets including consumer, computation, data communications, automotive and industrial.

In addition, we are a majority shareholder of SunPower Corporation (“SunPower”), a publicly traded company which designs, manufactures and delivers high-performance solar electric systems worldwide for residential, commercial and utility-scale power plant customers.

As of the end of fiscal 2007, our organization included the following business segments:

Business Segments	Description
Consumer and Computation Division . .	a product division focusing on PSoC, USB and general-purpose timing solutions
Data Communications Division	a product division focusing on data communication devices for wireless handset and professional / personal video systems
Memory and Imaging Division	a product division focusing on static random access memories (“SRAM”), nonvolatile memories and image sensor products
SunPower	a majority-owned subsidiary of Cypress specializing in solar products and services
Other	includes Silicon Light Machines and Cypress Systems, both majority-owned subsidiaries of Cypress, certain foundry-related services and certain corporate expenses

SunPower:

As of December 30, 2007, Cypress owned approximately 44.5 million shares of SunPower’s class B common stock. Cypress’s ownership interest in SunPower as of December 30, 2007 was as follows:

As a percentage of SunPower’s total outstanding shares of capital stock	56%
As a percentage of SunPower’s total outstanding shares of capital stock on a fully diluted basis . .	51%
As a percentage of the total voting power of SunPower’s outstanding shares of capital stock	90%

Only Cypress, its successors in interest and its subsidiaries may hold shares of SunPower’s class B common stock unless Cypress distributes the shares to its stockholders in a tax-free distribution. Cypress currently does not have any plans to distribute to its stockholders shares of SunPower’s class B common stock, although Cypress may elect to do so in the future. Cypress is continuing to explore ways in which to allow its stockholders to fully realize the value of its investment in SunPower. There can be no assurance that Cypress will commence or conclude a transaction, or take any other actions, in the short term, or at all.

Acquisition and Divestitures:

During fiscal 2007, SunPower completed the acquisition of PowerLight Corporation (“PowerLight”), a privately held leading provider of large-scale solar power systems for residential, commercial, government and utility customers worldwide. The purchase consideration and future stock-based compensation totaled approximately \$334.4 million. The acquisition enables SunPower to extend its leadership and participation in more diversified applications and markets, develop the next generation of solar products and solutions that will accelerate solar system cost reductions to compete with retail electric rates without incentives, and simplify and improve customer experience. In June 2007, SunPower changed PowerLight’s name to SunPower Corporation, Systems (“SP Systems”) to capitalize on SunPower’s name recognition.

As part of our ongoing corporate strategy, we have divested businesses that do not align with our long-term business plan to transform Cypress from a traditional, broad-line semiconductor company to a leading supplier of programmable system solutions. During fiscal 2007, we completed the following divestitures: Silicon Valley Technology Center (“SVTC”), a portion of the image sensor product families, and a portion of the network search engine (“NSE”) product families. We recorded total gains of \$18.0 million that resulted from these divestitures.

We continue to evaluate our business strategies and may complete additional acquisitions and/or divestitures in future periods.

Manufacturing Strategy:

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

Consistent with this strategy, our Board of Directors approved a plan in December 2007 to exit our manufacturing facility in Texas and transfer production to our more cost-competitive facility in Minnesota and outside foundries. Since all of Cypress’s newer products are being designed on more advanced process technologies, management believes that it is more cost effective to shift manufacturing elsewhere than to retool the facility in Texas. Cypress’s manufacturing facility in Minnesota offers state-of-the-art technology and there is currently sufficient cost-competitive foundry capacity in Asia enabling Cypress to achieve lower manufacturing costs. Cypress expects to complete the exit plan by the end of fiscal 2008.

Agreements with Distributors:

In fiscal 2007, Cypress had sales agreements with certain independent distributors in Asia, including Japan, using the “sell-in” revenue recognition model. Sales to these distributors were made under arrangements which did not provide these distributors with allowances such as price protection or rights of return. As such, revenues were recognized upon shipment.

Beginning in the first quarter of fiscal 2008, Cypress intends to negotiate new terms with these distributors. Under these new terms, these distributors will be provided with price protection and stock rotation rights. Given the uncertainties associated with the rights provided to these distributors, revenues and costs relating to sales to these distributors will be deferred until the products are sold by the distributors to the end customers.

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

Changing the terms of these distributor agreements will require us to change from recognizing revenues at the time of shipment to recognizing revenues upon sales to the ultimate end customers. As a result, our revenues in the first quarter of fiscal 2008 will be negatively impacted. We currently estimate that the revenue impact of this one-time event will be in the range of approximately \$18.0 million to \$23.0 million.

Results of Operations

Revenues

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Consumer and Computation Division	\$ 357,671	\$ 334,237	\$303,587
Data Communications Division	117,755	131,930	156,490
Memory and Imaging Division	330,305	342,276	311,235
SunPower	774,790	236,510	78,736
Other	15,866	46,600	36,348
Total revenues	<u>\$1,596,387</u>	<u>\$1,091,553</u>	<u>\$886,396</u>

Consumer and Computation Division:

Revenues from the Consumer and Computation Division increased \$23.4 million in fiscal 2007, or approximately 7%, compared to fiscal 2006. The increase was primarily attributable to an increase of \$44.6 million in sales of our PSoC solutions, driven by new design wins, expansion of our customer base and continued market penetration in a variety of end-market applications. In addition, the increase was attributable to the continued adoption of our family of USB products in PC applications and consumer devices, which contributed an increase of \$17.8 million in revenues. These increases were partially offset by a decrease of \$23.3 million in sales of our general-purpose clock products primarily due to slowing demand in the base-station and gaming market and increased competition, and \$15.7 million in sales of our PC clock products as we divested the product families in the fourth quarter of fiscal 2006.

Revenues from the Consumer and Computation Division increased \$30.7 million in fiscal 2006, or approximately 10%, compared to fiscal 2005. This increase was primarily attributable to an increase of \$47.3 million in sales of our PSoC products, driven by increased demand and market penetration in consumer applications. The increase in revenues was partially offset by a decline of \$7.2 million in sales of our communications-based, general-purpose clock business, primarily due to slowing demand in the base-station market. In addition, sales of our PC clock products declined \$6.0 million year-over-year, primarily because we divested the product family during the fourth quarter of fiscal 2006.

Data Communications Division:

Revenues from the Data Communications Division decreased \$14.2 million in fiscal 2007, or approximately 11%, compared to fiscal 2006. The decrease was primarily attributable to a decrease of \$27.2 million in sales of (1) our NSE products as we divested the remaining product families in fiscal 2007 and (2) our specialty memory products due to the continued slowdown in demand in the base-station market. The decrease was partially offset by an increase of \$10.1 million in sales of our new West Bridge controllers due to production ramps and shipments to cell phone manufacturers.

Revenues from the Data Communications Division decreased \$24.6 million in fiscal 2006, or approximately 16%, compared to fiscal 2005. The decrease was primarily attributable to a decline of \$13.9 million in sales of our NSE products as we sold a portion of the product families in fiscal 2006. In addition, the decrease was partially attributable to a decline of \$11.6 million in sales of our specialty memory products primarily due to a greater-than-expected slowdown in the base-station market.

Memory and Imaging Division:

Revenues from the Memory and Imaging Division decreased \$12.0 million in fiscal 2007, or approximately 3%, compared to fiscal 2006. The decrease was primarily attributable to a decrease of

\$19.2 million in sales of our pseudo-SRAM product families as these products were discontinued in fiscal 2007. The decrease was partially offset by an increase of \$7.6 million in sales of other memory products due to increased demand for networking and communications applications.

Revenues from the Memory and Imaging Division increased \$31.0 million in fiscal 2006, or approximately 10%, compared to fiscal 2005. This increase was attributable to an increase of \$33.8 million in sales of our memory products primarily due to increased demand for networking and communications applications.

SunPower:

SunPower generates revenues from two businesses:

- (1) Components, which generates revenues from sales of SunPower's solar cells, solar panels and inverters to solar systems installers and other resellers; and
- (2) Systems, which generates revenues from sales of engineering, procurement, construction and other services relating to solar electric power systems.

Revenues from SunPower increased \$538.3 million in fiscal 2007, or approximately 228%, compared to fiscal 2006. The increase in revenues was attributable to the combination of \$464.2 million in systems revenues from SP Systems, which was acquired by SunPower in the first quarter of fiscal 2007, and an increase in components revenues of \$74.1 million. The increase in components revenues was attributable to the continued increase in the demand for SunPower's solar cells and solar panels, coupled with the continued increase in unit production and unit shipments of both solar cells and solar panels as SunPower continued to expand its solar manufacturing capacity. In fiscal 2006, SunPower had a total of four solar cell manufacturing lines with an annual production capacity of 108 megawatts. In fiscal 2007, SunPower began commercial production on three additional solar cell lines with an annual production capacity of 106 megawatts.

SunPower recognizes systems revenues related to the fixed price construction contracts on a "percentage of completion" basis, and, as a result, the revenue from this business is driven by the performance of its contractual obligations, which is generally driven by timelines for the installation of its solar power systems at customer sites. Accordingly, this could result in material fluctuations in SunPower's systems revenues in future periods.

Revenues from SunPower increased \$157.8 million in fiscal 2006, or approximately 200%, compared to fiscal 2005. The increase in revenues was attributable to the continued increase in unit production and unit shipments of both solar cells and solar modules as SunPower continued to expand its solar manufacturing capacity to meet strong global demand. During the first nine months of fiscal 2005, SunPower had one solar cell manufacturing line in operation with an annual production capacity of 25 megawatts. Since then, SunPower has added three new production lines with an annual production capacity of 83 megawatts.

Other:

Revenues from the Other segment decreased \$30.7 million in fiscal 2007, or approximately 66%, compared to fiscal 2006. The decrease in revenues was primarily due to the divestiture of our SVTC business in the first quarter of fiscal 2007. SVTC contributed \$32.3 million of revenues in fiscal 2006 compared to \$6.3 million in fiscal 2007.

Revenues from the Other segment increased \$10.3 million in fiscal 2006, or approximately 28%, compared to fiscal 2005. The increase in revenues was primarily attributable to an increase of \$11.1 million generated by SVTC.

Cost of Revenues / Gross Margin

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Cost of revenues	\$1,048,005	\$631,328	\$528,657
Consolidated gross margin	34.4%	42.2%	40.4%
Semiconductor* gross margin	45.7%	47.4%	43.2%
SunPower gross margin	22.3%	23.3%	10.9%

* Semiconductor includes all reportable segments except for SunPower.

Gross margin on a consolidated basis decreased from 42.2% in fiscal 2006 to 34.4% in fiscal 2007. The decrease in gross margin was primarily attributable to changes in product mix, as SunPower, which generates gross margin significantly lower than our semiconductor businesses, continued to make up a larger portion of our consolidated sales. For fiscal 2007, SunPower accounted for approximately 48.5% of our total sales compared with 21.7% in fiscal 2006. We expect that SunPower will continue to increase as a percentage of total sales in fiscal 2008 compared to fiscal 2007.

The decrease in the semiconductor gross margin in fiscal 2007 compared to fiscal 2006 was primarily due to the divestiture of our high-margin SVTC business in fiscal 2007, coupled with the absorption of fixed manufacturing costs in our manufacturing facilities. The semiconductor gross margin has also been impacted by the timing of inventory adjustments related to inventory write-downs and the subsequent sale of these written-down products caused by the general state of our business. During fiscal 2007, the net impact of the inventory adjustments was a charge of \$4.1 million compared to a benefit of \$2.1 million in fiscal 2006. In addition, stock-based compensation expense allocated to cost of revenues increased approximately \$5.0 million in fiscal 2007 compared to fiscal 2006.

The decrease in SunPower's gross margin in fiscal 2007 compared to fiscal 2006 was primarily attributable to higher warranty and material costs, particularly costs of polysilicon ingots and wafers, and higher pre-operating costs associated with its new manufacturing facilities starting in the fourth quarter of fiscal 2006. In addition, stock-based compensation expense allocated to cost of revenues increased approximately \$11.6 million in fiscal 2007 compared to fiscal 2006. The decrease in gross margin was partially offset by improved manufacturing economies of scale associated with higher production volume and improved yields.

Gross margin on a consolidated basis increased from 40.4% in fiscal 2005 to 42.2% in fiscal 2006. The increase in gross margin was primarily attributable to an increase in sales volumes, coupled with an overall improvement in the ASPs for our products. In addition, increased efficiencies in our wafer fab utilization and improvement in the Memory and Imaging Division's gross margin year-over-year due to increased ASPs and reduced manufacturing cost structures contributed to higher overall gross margin. In addition, the net impact of the inventory adjustments was a benefit of \$2.1 million in fiscal 2006 compared with a charge of \$10.8 million in fiscal 2005.

The increase in gross margin in fiscal 2006 compared to fiscal 2005 was partially impacted by product mix, as SunPower with lower margins became a larger portion of our business and sales volumes from the Data Communications Division with higher margins declined. SunPower accounted for approximately 21.7% of our total business in fiscal 2006 compared with only 8.9% in fiscal 2005. Our Data Communications Division accounted for approximately 12.1% of our total business in fiscal 2006 compared with 17.7% in fiscal 2005. In addition, gross margin in fiscal 2006 was negatively impacted by the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payments," as we recorded approximately \$8.9 million of stock-based compensation expense in cost of revenues. The impact of stock-based compensation was immaterial in fiscal 2005.

Research and Development (“R&D”)

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
R&D expenses	\$187,803	\$242,292	\$225,944
As a percentage of revenues	11.8%	22.2%	25.5%

R&D expenditures decreased \$54.5 million in fiscal 2007 compared to fiscal 2006. The decrease in R&D expenditures was primarily driven by the reduction of employee-related costs of approximately \$20.8 million and other cost savings of approximately \$28.0 million. These cost reductions were mainly attributable to the divestitures of non-strategic product lines and businesses which resulted in reduced R&D activities in fiscal 2007, coupled with the termination of certain employees related to process technology development as we reduced our efforts in this area. The reduction in R&D expenditures was partially offset by an increase of approximately \$3.9 million incurred by SunPower primarily due to an increased headcount and the development of next generation solar cells and new processes for solar panel assembly operations. As a percentage of revenues, R&D expenditures decreased significantly in fiscal 2007 compared to fiscal 2006 primarily due to the decrease in consolidated R&D expenditures coupled with the significant increase in SunPower’s revenues. We anticipate that R&D expenditures in absolute dollars will remain relatively flat in fiscal 2008 compared to fiscal 2007.

R&D expenditures increased \$16.3 million in fiscal 2006 compared to fiscal 2005. The increase was primarily attributable to stock-based compensation expense of \$17.9 million as we implemented SFAS No. 123(R) in fiscal 2006 and an increase of \$9.4 million in other employee-related compensation expense primarily due to increases in payments under the employee bonus plans and salary increases. The increase in R&D expenditures was partially offset by a decrease of approximately \$7.8 million in repair and maintenance related expenses and approximately \$3.5 million in depreciation.

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
SG&A expenses	\$298,693	\$186,660	\$155,640
As a percentage of revenues	18.7%	17.1%	17.6%

SG&A expenses increased \$112.0 million in fiscal 2007 compared to fiscal 2006. The increase in SG&A expenditures was primarily due to an increase of approximately \$82.9 million related to SunPower, of which approximately \$34.2 million was related to an increase in stock-based compensation expense primarily attributable the acquisition of PowerLight and the remaining \$48.7 million was primarily attributable to the integration of SP Systems and increased employee-related costs to support the expansion of SunPower’s business in all areas of sales, marketing, finance and information technology. Excluding SunPower, the increase of \$29.1 million in SG&A expenditures was primarily attributable to an increase of approximately \$14.6 million in stock-based compensation expense, higher employee-related costs of approximately \$9.1 million primarily due to additional headcount in the sales and marketing functions and an increase of approximately \$8.6 million in legal costs and other professional fees. These increases were partially offset by a \$7.5 million reduction in the allowance for uncollectible loans related to our stock purchase assistance plan. We anticipate that SG&A expenses will increase in absolute dollars in fiscal 2008 compared to fiscal 2007.

SG&A expenditures increased \$31.0 million in fiscal 2006 compared with fiscal 2005. The increase was partially attributable to stock-based compensation expense of \$20.6 million as we implemented SFAS No. 123(R) in fiscal 2006 and an increase of \$11.8 million in other employee-related compensation expense primarily due to increases in payments under the employee bonus plans, salary increases and additional headcount and payroll costs mainly to support the growth of SunPower's business. In addition, expenses related to professional services increased approximately \$5.6 million primarily due to higher legal costs and other professional fees. The increase in SG&A expense was partially offset by a decrease of approximately \$5.0 million in sales commissions primarily because we implemented a new plan in fiscal 2006 to reduce commission rates.

Amortization of Acquisition-Related Intangible Assets

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Amortization of acquisition-related intangible assets	\$36,441	\$15,873	\$27,709
As a percentage of revenues	2.3%	1.5%	3.1%

Amortization expense increased \$20.6 million in fiscal 2007 compared to fiscal 2006. The increase was primarily driven by SunPower's acquisition of PowerLight in the first quarter of fiscal 2007, which resulted in additional amortization expense related to the intangible assets acquired in fiscal 2007.

The decrease in amortization expense in fiscal 2006 compared with fiscal 2005 was primarily attributable to a decrease in the amortization expense of certain purchased technology intangibles, as they had been fully amortized during fiscal 2006 and 2005, or sold to NetLogic in connection with the divestiture of our NSE product families during fiscal 2006.

Impairment of Acquisition-Related Intangible Assets

In January 2007, in connection with the acquisition of PowerLight, SunPower recorded \$79.5 million of intangible assets, of which \$15.5 million was related to the PowerLight tradename, the primary branding and product identification for PowerLight. The determination of the fair value and useful life of the tradename was based on SunPower's strategy of continuing to market its systems products and services under the PowerLight brand. In June 2007, SunPower formally changed its branding strategy by consolidating all of its product and service offerings under the SunPower brand and eliminating the use of the PowerLight tradename. In addition, SunPower changed PowerLight's name to SP Systems to capitalize on SunPower's name recognition. As a result of the change in branding strategy, SunPower wrote off the remaining net book value of \$14.1 million related to the PowerLight tradename.

Impairment Loss Related to Synthetic Lease

We held a synthetic lease for four facilities located in San Jose, California and one facility located in Bloomington, Minnesota. The lease was terminated in fiscal 2007. In connection with the synthetic lease, we recorded impairment charges of \$7.0 million, \$2.7 million and \$1.2 million during fiscal 2007, 2006 and 2005, respectively. See "Off-Balance Sheet Arrangements" below for further discussion.

In-Process Research and Development Charges

We recorded in-process research and development charges of \$9.6 million in connection with SunPower's acquisition of PowerLight in fiscal 2007 and \$12.3 million in connection with Cypress's acquisition of SMaL Camera Technologies ("SMaL") in fiscal 2005, as technological feasibility

associated with the in-process research and development projects had not been established and no alternative future use existed.

In-process research and development projects related to PowerLight consisted of two components: design automation tool and tracking systems. In-process research and development projects related to SMaL consisted of two components: first generation automotive cameras and mobile phone sensors. In assessing the projects, we primarily considered key characteristics of the technology as well as its future prospects, the rate technology changes in the industry, product life cycles, and the projects' stage of development.

The value of the in-process research and development projects was determined using the income approach method, which calculated the sum of the discounted future cash flows attributable to the projects once commercially viable. Discount rates were derived from a weighted-average cost of capital analysis, adjusted to reflect the stage of completion of the projects and the level of risks associated with the projects. A discount rate of 40% was used for PowerLight's projects and discount rates ranging from 35% to 45% were used for SMaL's projects. The percentage of completion for each project was determined by identifying the development expenses invested in the project as a ratio of the total estimated development costs required to bring the project to technical and commercial feasibility. The following tables summarize certain information related to each project:

PowerLight's Projects:

<u>Projects</u>	<u>Stage of Completion</u>	<u>Total Costs Incurred</u>	<u>Total Remaining Costs</u>
Design automation tool:			
As of January 10, 2007 (acquisition date)	8%	\$0.2 million	\$2.4 million
As of December 30, 2007	35%	\$0.9 million	\$1.7 million
Tracking systems:			
As of January 10, 2007 (acquisition date)	25%	\$0.2 million	\$0.6 million
As of December 30, 2007	100%	\$0.8 million	\$ —

As of December 30, 2007, SunPower has incurred total costs of approximately \$0.9 million related to the design automation tool project, of which \$0.7 million was incurred after the acquisition. SunPower estimates that an additional investment of \$1.7 million will be required to complete the project. SunPower expects to complete the design automation tool project by June 2009, approximately one and a half years sooner than the original estimate.

SunPower completed the tracking systems project in June 2007 and incurred total project costs of \$0.8 million, of which \$0.6 million was incurred after the acquisition. Both the actual completion date and the total project costs were in line with the original estimates.

SMaL's Projects:

<u>Projects</u>	<u>Stage of Completion</u>	<u>Total Costs Incurred</u>	<u>Total Remaining Costs</u>
First generation automotive cameras:			
As of February 15, 2005 (acquisition date)	58%	\$4.2 million	\$3.1 million
As of December 31, 2006	100%	\$7.3 million	\$ —
Mobile phone sensors:			
As of February 15, 2005 (acquisition date)	29%	\$2.4 million	\$6.0 million
As of December 31, 2006	100%	\$8.4 million	\$ —

We completed both projects in March 2006 and incurred total project costs of \$15.7 million, of which \$9.1 million was incurred after the acquisition. Both the actual completion date and the total project costs were in line with the original estimates.

Restructuring

During the fourth quarter of fiscal 2007, our Board of Directors approved a restructuring plan to exit Cypress's manufacturing facility located in Round Rock, Texas. Under the plan, we will transition production from the Texas facility to our more cost-effective facility in Bloomington, Minnesota as well as outside third-party foundries. We currently plan to continue operations at the Texas facility through the third quarter of fiscal 2008 and expect to complete the exit plan by the end of fiscal 2008. The exact timing of the exit could vary considerably if we locate a potential buyer. The exit plan does not involve the discontinuance of any product lines or other functions.

The exit plan will include the terminations of employees and the disposal of assets, primarily consisting of the building and manufacturing equipment, located in the Texas facility. We expect to eliminate approximately 240 positions in the Texas facility in fiscal 2008. The majority of the employees are in the manufacturing functions. As these employees will continue to provide services during fiscal 2008, we recognize the severance and benefit costs associated with these employees ratably over the service period in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." We estimate that the total severance and benefit costs will be approximately \$6.0 million to \$8.0 million, of which \$0.4 million was recorded in the fourth quarter of fiscal 2007. In addition, during the fourth quarter of fiscal 2007, we recorded \$0.2 million of other exit costs. Upon the ultimate disposition of the assets, we believe that we will be able to recover these assets' remaining net book value.

We continue to evaluate our options related to the exit plan and may incur additional charges on such options in future periods.

Gain on Divestitures

During fiscal 2007 and 2006, we recognized total gains of \$18.0 million and \$14.7 million, respectively, related to our divestitures. We did not have any divestitures in fiscal 2005.

The following table summarizes the divestitures completed in fiscal 2007:

Product Families / Businesses	Reportable Segments	Buyers	Total Consideration
A portion of the image sensor product families	Memory and Imaging Division	Sensata Technologies	\$11.0 million in cash
SVTC	Other	Semiconductor Technology Services	\$53.0 million in cash
A portion of the NSE product families	Data Communications Division	NetLogic Microsystems	\$14.4 million in cash

The following table summarizes the components of the gains:

	<u>Image Sensors</u>	<u>SVTC</u>	<u>NSE</u>	<u>Total</u>
		(In thousands)		
Cash proceeds	\$11,000	\$ 52,950	\$14,448	\$ 78,398
Assets sold:				
Accounts receivable	—	(3,927)	—	(3,927)
Inventories	(1,438)	—	(2,375)	(3,813)
Property, plant and equipment	—	(37,823)	—	(37,823)
Intangible assets	(4,581)	—	—	(4,581)
Other	(515)	—	—	(515)
Allocated goodwill	(2,306)	—	(4,872)	(7,178)
Employee-related costs	(1,093)	—	—	(1,093)
Transaction and other costs	(845)	(640)	(25)	(1,510)
Gain on divestitures	<u>\$ 222</u>	<u>\$ 10,560</u>	<u>\$ 7,176</u>	<u>\$ 17,958</u>

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”), we included a portion of goodwill in the carrying amount of the image sensor and NSE product families in determining the gain on disposal. The amount was based on the relative fair values of the product families that were disposed of and the remaining portion of the reporting units that are retained by us. SVTC was part of a reporting unit that does not have any goodwill balance.

In connection with the divestiture of the image sensor product families, approximately 25 employees were transferred to Sensata Technologies. In connection with the divestiture of SVTC, approximately 85 employees were transferred to Semiconductor Technology Services. No employees were transferred or terminated in connection with the divestiture of the NSE product families.

The following table summarizes the divestitures completed in fiscal 2006:

<u>Product Families</u>	<u>Reportable Segments</u>	<u>Buyers</u>	<u>Total Consideration</u>
Personal computer (“PC”) clock product families	Consumer and Computation Division	Spectra Linear	\$14.4 million in cash and stock
A portion of the NSE product families	Data Communications Division	NetLogic Microsystems	\$58.5 million in stock

In connection with the divestiture of the PC clock product families, Spectra Linear paid us \$8.0 million in cash and issued to us 7.4 million shares of its series B preferred stock, which were equal to approximately 15% of Spectra Linear’s fully diluted shares at the closing date of the transaction. The preferred stock was valued at \$6.4 million, based on the latest round of financing completed by Spectra Linear in fiscal 2006.

In connection with the divestiture of the NSE product families, NetLogic Microsystems issued to us approximately 1.7 million shares of its common stock. The common stock was valued at \$58.5 million, which was determined based on the stock price of NetLogic Microsystems on the closing date of the transaction.

The following table summarizes the components of the gains:

	PC Clock	NSE	Total
	(In thousands)		
Cash proceeds	\$ 8,000	\$ —	\$ 8,000
Value of capital stock received	6,406	58,531	64,937
Assets sold:			
Inventories	(1,664)	(2,716)	(4,380)
Intangible assets	—	(1,037)	(1,037)
Other	(422)	(268)	(690)
Allocated goodwill	(2,840)	(44,070)	(46,910)
Employee-related costs	(233)	(2,799)	(3,032)
Transaction and other costs	(515)	(1,643)	(2,518)
Gain on divestitures	<u>\$ 8,732</u>	<u>\$ 5,998</u>	<u>\$ 14,730</u>

In accordance with SFAS No. 142, we included a portion of goodwill in the carrying amount of the PC clock and NSE product families in determining the gain on disposal. The amount was based on the relative fair values of the product families that were disposed of and the remaining portion of the reporting units that are retained by us.

In connection with the divestiture of the NSE product families, approximately 54 employees were either terminated or transferred to NetLogic Microsystems. In connection with the divestiture of the PC clock product families, approximately ten employees were either terminated or transferred to Spectra Linear.

Interest Income

Interest income primarily includes interest income earned on our cash and investments. In addition, interest income includes interest income associated with the outstanding loans under our stock purchase assistance plan.

Interest income increased \$20.8 million in fiscal 2007 compared to fiscal 2006. The increase in interest income was primarily attributable to an increase of approximately \$23.2 million of interest income driven by higher average cash and investment balances, coupled with higher interest rates. The increase was partially offset by a decrease of approximately \$1.3 million of interest income from the stock purchase assistance plan due to lower outstanding loan balances.

Interest income increased \$19.3 million in fiscal 2006 compared to fiscal 2005. The increase in interest income was primarily driven by higher average cash and investment balances, coupled with higher interest rates.

Interest Expense

Interest expense is primarily associated with our convertible notes and collateralized debt instruments. In addition, interest expense also includes interest expense related to SunPower's outstanding customer advances.

Interest expense increased \$1.5 million in fiscal 2007 compared to fiscal 2006. The increase in interest expense was primarily attributable to the issuance of \$600.0 million in principal amount of Cypress's 1.00% convertible senior notes ("Cypress 1.00% Notes"), \$200.0 million in principal amount of SunPower's 1.25% senior convertible debentures ("SunPower 1.25% Notes") and \$225.0 million in principal amount of SunPower's 0.75% senior convertible debentures ("SunPower 0.75% Notes") during fiscal 2007. The issuance of the convertible debt resulted in an additional \$7.6 million of interest expense in fiscal 2007. The increase was partially offset by a decrease of \$6.4 million of interest

expense related to Cypress's 1.25% convertible subordinated notes ("Cypress 1.25% Notes"), which were fully redeemed in February 2007.

In September 2007, the Financial Accounting Standards Board ("FASB") issued a proposed FASB Staff Position APB 14-a, which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion. The proposed guidance, if issued in final form, would significantly impact the accounting for our convertible debt. The proposed guidance would require us to separately account for the liability and equity components of the convertible debt in a manner that reflects interest expense equal to our non-convertible debt borrowing rate. The proposed guidance, if issued in final form, will result in significantly higher non-cash interest expense on our convertible debt.

Interest expense increased \$1.1 million in fiscal 2006 compared to fiscal 2005. The increase in interest expense was primarily attributable to an increase of \$1.8 million of interest expense related to SunPower's outstanding customer advances, partially offset by a decrease of \$0.6 million of interest expense associated with our collateralized debt instruments, which were paid in full in January 2006.

Gain on Sale of SunPower's Common Stock

During the second quarter of fiscal 2007, Cypress completed the sale of 7.5 million shares of SunPower's class A common stock (which were converted from class B common stock) on the open market. As a result of the transaction, Cypress received net proceeds of \$437.3 million and recorded a gain of \$373.2 million.

As of December 30, 2007, Cypress continued to hold 44.5 million shares of SunPower's class B common stock.

Other Income (Expense), Net

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Amortization of debt issuance costs	\$ (6,212)	\$ (3,721)	\$ (3,721)
Write-off of debt issuance costs	(19,920)	—	—
Gain on investments in equity securities	929	10,027	—
Impairment of investments	(1,903)	(5,325)	(826)
Changes in fair value of investments under the deferred compensation plan	1,138	2,128	1,099
Foreign currency exchange loss, net	(3,409)	(634)	(974)
Other income (expense)	611	909	(423)
Total other income (expense), net	<u><u>\$(28,766)</u></u>	<u><u>\$ 3,384</u></u>	<u><u>\$(4,845)</u></u>

Write-Off of Debt Issuance Costs:

In February 2007, we redeemed all of the Cypress 1.25% Notes. As a result, we wrote off \$4.7 million of related unamortized debt issuance costs.

The Cypress 1.00% Notes contain a common stock price conversion test, under which holders are able to exercise their right to convert the convertible notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, Cypress's common stock closes at a price in excess of 130% of the initial conversion price (or \$31.07) on the last day of such calendar quarter. The SunPower 1.25% Notes and the SunPower 0.75% Notes also contain a similar common stock price conversion test, under which holders are able to exercise their right to convert the convertible notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, SunPower's common stock closes at a price in excess of 125% of the initial conversion prices (\$70.94 for the SunPower 1.25% Notes and \$102.80 for the SunPower 0.75% Notes) on the last day of such calendar quarter. In December 2007, the common stock price conversion test was met for the Cypress 1.00% Notes, the SunPower 1.25% Notes and the SunPower 0.75% Notes, giving the holders the right to convert the convertible debt during the first quarter of fiscal 2008. As a result of this triggering event, we accelerated the amortization of the remaining unamortized debt issuance costs and wrote off \$15.2 million in the fourth quarter of fiscal 2007.

Gain on Investments in Equity Securities:

During fiscal 2007, we sold our equity investments in two public companies and recognized total gains of \$0.9 million.

During fiscal 2006, we completed the sale of our equity investments in two public companies and recognized total gains of \$7.1 million. In addition, one of the privately held companies in which we held an equity investment was acquired by a public company, resulting in us receiving shares in the public company. As a result of the transaction, we recognized a gain of \$2.9 million during fiscal 2006.

Impairment of Investments:

We recognize an impairment charge when the carrying value of an investment exceeds its fair value and the decline in value is deemed to be other-than-temporary. We recorded impairment charges of \$1.9 million, \$5.3 million and \$0.8 million in fiscal 2007, 2006 and 2005, respectively, as the decline in the values of certain investments was deemed to be other-than-temporary.

Deferred Compensation Plan:

In fiscal 1995, we adopted a deferred compensation plan, which provides certain key employees, including our executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-free basis. We do not make contributions to the deferred compensation plan or guarantee returns on the investments. Participant deferrals and investment gains and losses remain our assets and are subject to claims of general creditors.

We account for the deferred compensation plan in accordance with Emerging Issues Task Force ("EITF") Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." In accordance with EITF Issue No. 97-14, the plan assets (excluding the amounts invested in Cypress's common stock which is accounted for as treasury stock carried at cost) are recorded at fair value with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value with the offset being recorded as an operating expense or credit. As of December 30, 2007 and December 31, 2006, the plan assets totaled \$29.4 million and \$22.3 million, respectively, and the liabilities totaled \$30.8 million and \$25.8 million, respectively.

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Changes in fair value of assets recorded in:			
Other income (expense), net	\$1,138	\$ 2,128	\$1,099
Changes in fair value of liabilities recorded in:			
Cost of revenues	(679)	(871)	(614)
R&D expenses	(782)	(1,003)	(707)
SG&A expenses	(596)	(765)	(540)
Total expense, net	<u>\$ (919)</u>	<u>\$ (511)</u>	<u>\$ (762)</u>

Income Taxes

We recorded an income tax benefit of \$0.3 million in fiscal 2007, compared to an expense of \$6.9 million in fiscal 2006 and a benefit of \$1.3 million in fiscal 2005. The tax benefit in fiscal 2007 was primarily attributable to the utilization of foreign tax credits and the amortization of deferred tax liabilities associated with purchased intangible assets, partially offset by non-U.S. taxes on income earned in certain countries that was not offset by current year net operating losses in other countries and U.S. federal and state alternative minimum tax. The tax expense in fiscal 2006 was primarily attributable to non-U.S. taxes on income earned in certain countries that was not offset by current year net operating losses in other countries and U.S. federal and state alternative minimum tax. The tax benefit in fiscal 2005 was primarily attributable to amortization of purchased intangibles, partially offset by non-U.S. taxes on income earned in certain countries that is not offset by current year net operating losses in other countries. Our effective tax rate varies from the U.S. statutory rate primarily due to our assessment of the utilization of loss carryovers and earnings of foreign subsidiaries taxed at different rates. Deferred tax assets of \$250.6 million at December 30, 2007 were fully reserved due to uncertainty of realization.

During fiscal 2007, Cypress completed the sale of 7.5 million shares of SunPower's common stock and recognized a gain of \$373.2 million from the transaction. Alternative minimum tax has been accrued on the taxable portion of the gain remaining after offset by capital loss, net operating loss carryovers and foreign tax credits.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We regularly assess our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the many countries in which we and our affiliates do business.

The IRS is currently conducting audits of: (1) Cypress's federal income tax returns for fiscal 2003 and 2004, and (2) SP Systems' federal income tax returns for fiscal 2004 and 2005. In addition, non-U.S. tax authorities are conducting tax audits of our subsidiaries in the Philippines for fiscal 2005 and 2006, and India for fiscal 2002 and 2003. As of December 30, 2007, no material adjustments to the tax liabilities have been proposed by the IRS or other foreign tax authorities. However, the IRS or the foreign tax authorities have not completed their examinations and there can be no assurance that there will be no material adjustments upon the completion of their reviews.

Minority Interest

For fiscal 2007, 2006 and 2005, minority interest totaled \$4.3 million, \$6.4 million and \$0.3 million, respectively, and was primarily related to SunPower.

As of December 30, 2007, December 31, 2006 and January 1, 2006, Cypress's ownership interest in SunPower was approximately 56%, 75% and 85%, respectively, of SunPower's outstanding capital stock. The decrease in Cypress's ownership interest in fiscal 2007 compared to fiscal 2006 was primarily attributable to: (1) SunPower's issuance of its common stock in connection with the acquisition of PowerLight, (2) Cypress's sale of a portion of its ownership interest in SunPower, (3) SunPower's follow-on public offering of its common stock, and (4) option exercises by SunPower's employees.

The decrease in Cypress's ownership interest in fiscal 2006 compared to fiscal 2005 was primarily attributable to: (1) SunPower's follow-on public offering of its common stock, and (2) option exercises by SunPower's employees. Immediately prior to SunPower's initial public offering in the fourth quarter of fiscal 2005, Cypress's ownership interest in SunPower was 100%.

Liquidity and Capital Resources

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

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Cash, cash equivalents and short-term investments	\$1,426,405	\$580,174
Working capital	\$ 572,992	\$676,789
Convertible debt—short-term	\$1,025,000	\$ —
Convertible debt—long-term	\$ —	\$598,996

Investment Portfolio and Valuations:

Our investment policy and strategy attempts to preserve capital, meet liquidity requirements, and optimize return. Our cash is managed by an internal manager and external managers within the guidelines of our investment policy and to an objective market benchmark. Our internal portfolio is benchmarked against external manager performance, allowing for differences in liquidity needs. Our investments are diversified, high-quality investment grade securities with limited time to maturity. In addition, our policy generally limits the amount of credit exposure to any one issuer. Currently, the average credit ratings of our portfolio are AA+/Aa1, which are high quality ratings from the major credit rating agencies.

Recent volatility and credit issues in the financial market has had an adverse impact on market activities including, among other things, volatility in security prices, diminished liquidity, rating downgrades of certain investments and declining valuations of others. We have assessed the implications of these factors and performed valuations of our investment portfolio. Our review primarily included a pricing evaluation by comparing our portfolio against two major independent pricing sources. Except as discussed below, we noted no significant market value variance in our review. In addition, our internal and external managers performed credit rating reviews by going through analysis and independent research to assess the credit quality of each issuer and affirmed that the average rating of our investment holdings is AA+.

Following the review of our investment portfolio, we identified one investment in an asset-backed commercial paper where we determined that a portion of the carrying value of \$1.5 million was impaired as the issuer was unable to raise sufficient funding to cover the maturing obligations. As a result, we recorded an impairment charge of approximately \$0.4 million and reclassified the remaining balance of \$1.1 million from cash equivalents to long-term investments.

Auction Rate Securities:

As of December 30, 2007, our investment portfolio included \$95.3 million of auction rate securities, which are investments with contractual maturities generally between 20 to 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations whose interest rates are reset every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par.

The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the United States Federal Department of Education. In addition, all auction rate securities held by us are rated by the major independent rating agencies as either AAA or Aaa.

Most of these auction rate securities were scheduled to reset subsequent to December 30, 2007. As of February 28, 2008, \$44.9 million of our auction rate securities have failed auctions, and we expect that the remaining auction rate securities will fail, due to sell orders exceeding buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. In the event we need to access these funds associated with failed auctions, they are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. As a result, we have classified \$67.8 million of the auction rate securities as long-term investments as of December 30, 2007. This amount represents the balance of the auction rate securities as of December 30, 2007 that had not been sold by us subsequent to the end of fiscal 2007.

We determined that no other-than-temporary impairment losses existed as of December 30, 2007 as all holdings had successful auctions. However, if the issuer of the auction rate securities is unable to successfully close future auctions or does not redeem the auction rate securities, or the United States government fails to support its guaranty of the obligations, we may be required to adjust the carrying value of the auction rate securities and record other-than-temporary impairment charges in future periods.

Key Components of Cash Flows:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
		(In thousands)	
Net cash provided by operating activities	\$128,479	\$ 127,260	\$ 81,018
Net cash used in investing activities	\$(71,226)	\$(207,175)	\$(126,654)
Net cash provided by financing activities	\$616,129	\$ 272,245	\$ 200,223

Fiscal 2007:

During fiscal 2007, net cash provided by operations increased \$1.2 million compared to fiscal 2006. Operating cash flows for fiscal 2007 was primarily driven by net income of \$394.3 million, adjusted for non-cash items including the one-time gain on Cypress's sale of SunPower's common stock, depreciation and amortization, stock-based compensation expense, impairment losses, gains on investments and divestitures, in-process research and development charge, write-off of debt issuance costs, and changes in operating assets and liabilities. The increase in accounts receivable was primarily attributable to SunPower as a result of higher revenues, partially compensated by improved collection efforts. The increase in inventories was primarily attributable to the growth at SunPower to support its production ramp. The increase in other assets was primarily due to additional advances made by SunPower to polysilicon suppliers, coupled with higher costs and estimated earnings in excess of billings related to SunPower's construction contracts.

During fiscal 2007, cash used in investing activities decreased \$135.9 million compared to fiscal 2006. For fiscal 2007, investing activities primarily included: (1) Cypress's sale of 7.5 million shares of SunPower's common stock, which generated net proceeds of \$437.3 million, (2) receipt of \$78.4 million from our divestitures, and (3) proceeds of \$27.6 million from the collection of our SPAP loans. These cash inflows were partially offset by: (1) \$230.3 million of property and equipment expenditures (which included \$193.5 million use of cash for SunPower's purchases), (2) purchases of \$227.4 million of investments, net of proceeds from sales and maturities, (3) \$98.6 million of cash used in the acquisition of PowerLight, net of cash acquired, and (4) increase in restricted cash of \$63.2 million.

During fiscal 2007, cash provided by financing activities increased \$343.9 million compared to fiscal 2006. For fiscal 2007, financing activities primarily included: (1) proceeds of \$1.0 billion from the issuance of convertible debt, (2) proceeds of \$218.9 million from the issuance of common shares under our employee stock plans, and (3) proceeds of \$167.4 million from SunPower's follow-on public offering of its common shares. The cash inflows were partially offset by: (1) repurchases of our common shares under the accelerated share repurchase program, which used \$571.0 million, (2) redemption of the Cypress 1.25% Notes, which resulted in cash payments of \$179.7 million, (3) cash payments of approximately \$23.8 million of debt issuance costs, and (4) purchase of a convertible note hedge and issuance of warrants, which used \$17.0 million.

Fiscal 2006:

During fiscal 2006, cash provided by operations increased \$46.2 million compared to fiscal 2005. This increase was primarily due to net income generated in fiscal 2006 compared with a net loss incurred in fiscal 2005, adjusted for certain non-cash items including depreciation and amortization, stock-based compensation and changes in operating assets and liabilities. The increase in accounts receivable was primarily due to an increase in sales, partially mitigated by improved collection efforts. The increase in inventories was primarily due to the growth at SunPower to support its business, as well as the build-up in our core semiconductor business. Increase in other assets was primarily attributable to an increase in SunPower's prepayments to its polysilicon suppliers.

During fiscal 2006, cash used in investing activities increased \$80.5 million compared to fiscal 2005. We spent approximately \$221.2 million for purchases of property and equipment (which included \$108.3 million use of cash for SunPower). These uses of cash were partially offset by the proceeds from the collection of loans of \$14.5 million under our employee stock purchase assistance plan.

During fiscal 2006, cash provided by financing activities increased \$72.0 million compared to fiscal 2005. We received proceeds of \$197.4 million from SunPower's follow-on public offering of its common stock and \$80.6 million from the issuance of common stock under our employee stock plans.

Fiscal 2005:

During fiscal 2005, cash provided by operations decreased \$76.7 million compared to fiscal 2004. This decrease was primarily due to a net loss incurred in fiscal 2005 compared with net income generated in fiscal 2004, adjusted for certain non-cash items such as depreciation and amortization, restructuring charges and changes in operating assets and liabilities.

During fiscal 2005, we spent approximately \$146.5 million for purchases of property and equipment (which included \$71.6 million use of cash for SunPower) and used an additional \$48.1 million, net of cash received, in our acquisitions of SMaL and the minority interest in Cypress MicroSystems. These uses of cash were partially offset by the proceeds from sales and maturities of investments of \$65.6 million, net of purchases.

During fiscal 2005, cash provided by financing activities included approximately \$145.6 million of net proceeds from SunPower's initial public offering. In addition, the issuance of common shares under

our employee stock plans generated \$65.6 million in cash. The increase was partially offset by repayment of debt of approximately \$11.1 million.

Liquidity:

Stock Repurchase Program:

In January 2007, Cypress's Board of Directors authorized a new stock repurchase program of up to \$300.0 million. All previous repurchase programs have been terminated as a result of this new program. The authorization allows Cypress to purchase its common stock, its outstanding Cypress 1.00% Notes or to enter into equity derivative transactions related to its common stock. Stock repurchases under the new program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The stock repurchase program may be limited or terminated at any time without prior notice. As of December 30, 2007, Cypress had not repurchased any shares and \$300.0 million remained outstanding under the stock repurchase program.

During the first quarter of fiscal 2008, our Board of Directors approved an additional \$300.0 million under the stock repurchase program, bringing the total amount that may be used for stock repurchases to \$600.0 million. As of February 28, 2008, we used \$269.1 million in cash to repurchase a total of 12.2 million shares at an average price of \$22.02 under the stock repurchase program, leaving \$330.9 million available for future expenditure.

Convertible Debt:

At the end of fiscal 2006, Cypress had \$599.0 million in principal amount of the Cypress 1.25% Notes that were due in June 2008. In February 2007, Cypress called for redemption of the outstanding Cypress 1.25% Notes. Holders had the option to convert the Cypress 1.25% Notes into 55.172 shares of Cypress's common stock per \$1,000 principal amount plus \$300 in cash. Alternatively, holders had the option to have their Cypress 1.25% Notes redeemed. Upon redemption, holders would receive \$1,000 plus accrued interest per \$1,000 principal amount. As a result of the redemption, Cypress issued approximately 33.0 million shares of its common stock and paid approximately \$179.7 million in cash to the holders in fiscal 2007.

In March 2007, Cypress issued \$600.0 million in principal amount of the Cypress 1.00% Notes. The Cypress 1.00% Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on September 15, 2007. The Cypress 1.00% Notes will mature on September 15, 2009 unless earlier repurchased or converted. The Cypress 1.00% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount of the Cypress 1.00% Notes or the conversion value. If the conversion value is greater than \$1,000, then the excess conversion value will be convertible into cash, common stock or a combination of cash and common stock, at Cypress's election. The initial effective conversion price of the Cypress 1.00% Notes is \$23.90 per share, which represents a premium of 26.5% to the closing price of Cypress's common stock on the date of issuance.

In connection with the issuance of the Cypress 1.00% Notes, we entered into a separate convertible note hedge transaction. The convertible note hedge transaction is expected to reduce the potential dilution upon conversion of the Cypress 1.00% Notes in the event the market value per share of Cypress's common stock at the time of exercise is greater than the conversion price of \$23.90. In addition, we sold warrants to acquire up to approximately 25.1 million shares of Cypress's common stock in a separate warrant transaction. The warrants are to be settled on a net-exercise basis, either in shares of stock or cash, at Cypress's election. The potential dilution caused by the warrants occurs when the value is above the exercise price of \$27.00. In conjunction with the convertible note hedge and the warrants, we paid net premiums of approximately \$17.0 million using a portion of the proceeds from the offering of the Cypress 1.00% Notes.

In connection with the offering of the Cypress 1.00% Notes, Cypress entered into an accelerated share repurchase program. Pursuant to the program, Cypress repurchased shares of common stock on the open market based on the volume weighted-average price of Cypress's common stock, subject to a per-share floor price and cap price, calculated over a period of approximately three months. The accelerated share repurchase program was funded with approximately \$571.0 million of net proceeds from the offering of the Cypress 1.00% Notes. The accelerated share repurchase program was completed in fiscal 2007 and we repurchased a total of 28.9 million shares at an average price of \$19.78.

In February 2007, SunPower issued \$200.0 million in principal amount of the SunPower 1.25% Notes. Interest on the SunPower 1.25% Notes is payable on February 15 and August 15 of each year, commencing on August 15, 2007. The SunPower 1.25% Notes will mature on February 15, 2027. Holders may require SunPower to repurchase all or a portion of their SunPower 1.25% Notes on each of February 15, 2012, February 15, 2017 and February 15, 2022, or if SunPower experiences certain types of corporate transactions constituting a fundamental change. In addition, SunPower may redeem some or all of the SunPower 1.25% Notes on or after February 15, 2012. The SunPower 1.25% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than \$1,000, then the excess conversion value will be convertible into common stock. The initial effective conversion price of the SunPower 1.25% Notes is \$56.75 per share, which represents a premium of 27.5% to the closing price of SunPower's common stock on the date of issuance.

In July 2007, SunPower issued \$225.0 million in principal amount of the SunPower 0.75% Notes. The SunPower 0.75% Notes bear interest at a rate of 0.75% per year, payable on February 1 and August 1 of each year, commencing on February 1, 2008. The SunPower 0.75% Notes will mature on August 1, 2027. Holders may require SunPower to repurchase all or a portion of their SunPower 0.75% Notes on each of August 1, 2010, August 1, 2015, August 1, 2020, and August 1, 2025, or if SunPower is involved in certain types of corporate transactions constituting a fundamental change. In addition, SunPower may redeem some or all of the SunPower 0.75% Notes on or after August 1, 2010. The SunPower 0.75% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than \$1,000, then the excess conversion value will be convertible into cash, common stock or a combination of cash and common stock, at SunPower's election. The initial effective conversion price of the SunPower 0.75% Notes is \$82.24 per share, which represents a premium of 27.5% to the closing price of SunPower's common stock on the date of issuance.

The Cypress 1.00% Notes contain a common stock price conversion test, under which holders may convert the convertible notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, Cypress's common stock closes at a price in excess of 130% of the conversion price (or \$31.07) on the last day of such calendar quarter. The SunPower 1.25% Notes and the SunPower 0.75% Notes also contain a similar common stock price conversion test, under which holders may convert the convertible notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, SunPower's common stock closes at a price in excess of 125% of the conversion prices (\$70.94 for the SunPower 1.25% Notes and \$102.80 for the SunPower 0.75% Notes) on the last day of such calendar quarter. In December 2007, the common stock price conversion test was met for the Cypress 1.00% Notes, the SunPower 1.25% Notes and the SunPower 0.75% Notes. Accordingly, the holders may exercise their right to convert the convertible notes during the first quarter of fiscal 2008.

As of February 28, 2008, no holders have exercised their right to convert the convertible notes. Management believes that the likelihood that any holders will actually exercise their right to convert the convertible notes is remote, given that the current market value of the convertible notes exceeds the value the holders would receive upon conversion. Our principal current sources of liquidity are cash and short-term investments on our balance sheets, cash generated by operations and borrowings under

our credit facilities. Based on our current financial condition, management believes that liquidity from these sources, combined with the potential availability of future sources of funding, including accessing debt and equity markets, will be adequate to fund our debt obligations.

Since the common stock price conversion test was met and the holders are able to exercise their right to convert the convertible notes, we classified the principal amounts of our convertible notes as short-term liabilities in the Consolidated Balance Sheet as of December 30, 2007. If the common stock price conversion test is not met in a subsequent quarter, our convertible notes may be re-classified as non-current debt until the convertible notes are within 12 months of maturity or until such time when the common stock price conversion test is triggered again.

Contractual Obligations:

The following table summarizes our contractual obligations as of December 30, 2007:

	<u>Total</u>	<u>Payments Due by Years</u>			
		<u>2008</u>	<u>2009 and 2010</u>	<u>2011 and 2012</u>	<u>After 2012</u>
		<u>(In thousands)</u>			
Convertible debt:					
Principal(1)	\$1,025,000	\$ —	\$ 600,000	\$ —	\$ 425,000
Interest	91,104	10,188	12,625	8,375	59,916
Customer advances, including interest(2)	72,022	10,671	29,351	16,000	16,000
Lease commitments	68,354	12,529	19,430	14,382	22,013
Purchase obligations:					
Polysilicon(3)	2,099,495	263,150	744,880	518,103	573,362
Other(4)	219,256	217,851	1,405	—	—
Total contractual obligations	<u>\$3,575,231</u>	<u>\$514,389</u>	<u>\$1,407,691</u>	<u>\$556,860</u>	<u>\$1,096,291</u>

- (1) Convertible debt includes the Cypress 1.00% Notes, the SunPower 1.25% Notes and the SunPower 0.75% Notes. For the purpose of this table, we assume that (1) no holders will exercise their right to convert the convertible notes as a result of the common stock price conversion test that was triggered in the fourth quarter of fiscal 2007, and (2) all holders will hold the convertible notes until the maturity dates and the conversion obligations equal the principal amounts.
- (2) Customer advances are related to certain agreements between SunPower and its customers under which SunPower received advance payments from the customers for future purchases of solar power products or supplies.
- (3) SunPower has agreements with certain suppliers of polysilicon, ingots, wafers, solar cells and solar panels. These agreements specify future quantities and pricing of products to be supplied by the vendors for periods up to 12 years and provide for certain consequences, such as forfeiture of advanced deposits and liquidated damages relating to previous purchases, in the event that SunPower terminates the arrangements.
- (4) Other purchase obligations primarily include other non-cancelable purchase orders for materials, services, manufacturing equipment, building improvements and supplies in the ordinary course of business. Purchase obligations are defined as enforceable agreements that are legally binding on us and that specify all significant terms, including quantity, price and timing.

As of December 30, 2007, our unrecognized tax benefits were \$51.0 million, which were classified as long-term liabilities. At this time, we are unable to make a reasonably reliable estimate of the timing

of payments, if any, in individual years due to uncertainties in the timing or outcomes of either actual or anticipated tax audits. As a result, this amount is not included in the table above.

Capital Resources and Financial Condition:

Our long-term strategy is to maintain a minimum amount of cash and cash equivalents for operational purposes and to invest the remaining amount of our cash in interest-bearing and highly liquid cash equivalents and debt securities. As of December 30, 2007, in addition to \$1,093.7 million in cash and cash equivalents, we had \$332.7 million invested in short-term investments for a total cash and short-term investment position of \$1,426.4 million that is available for use in current operations.

As of December 30, 2007, our consolidated cash, cash equivalents and short-term investment balances included approximately \$390.7 million of SunPower's cash, cash equivalents and short-term investments, which are not available for general corporate use by Cypress.

In May 2007, Cypress completed the sale of 7.5 million shares of SunPower's class A common stock (converted from class B common stock) on the open market and received net proceeds of \$437.3 million from the transaction. As of December 30, 2007, Cypress held 44.5 million shares of SunPower's class B common stock. As our financial statements are presented on a consolidated basis, the fair value of Cypress's ownership interest in SunPower is not recorded as an asset in the Consolidated Balance Sheets.

In July 2007, SunPower completed a follow-on public offering of 2.7 million shares of its class A common stock and received total proceeds, net of transaction costs, of approximately \$167.4 million. SunPower intends to use the net proceeds of this offering for general corporate purposes, including working capital and capital expenditures.

We believe that liquidity provided by existing cash, cash equivalents and investments and our borrowing arrangements will provide sufficient capital to meet our requirements for at least the next twelve months. However, should prevailing economic conditions and/or financial, business and other factors beyond our control adversely affect our estimates of our future cash requirements (including our debt obligations), we could be required to fund our cash requirements by alternative financing. There can be no assurance that additional financing, if needed, would be available on terms acceptable to us or at all.

We may choose at any time to raise additional capital or debt to strengthen our financial position, facilitate growth, and provide us with additional flexibility to take advantage of business opportunities that arise.

Lease Guarantees:

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

Pursuant to a master lease agreement, Grace has leased from CIT Technologies Corporation ("CIT") certain semiconductor manufacturing equipment. In conjunction with the master lease agreement, we have entered into a series of guarantees with CIT for the benefit of Grace. Under the guarantees, we have agreed to unconditional guarantees to CIT of the rental payments payable by Grace for the leased equipment under the master lease agreement. If Grace fails to pay any of the quarterly rental payments, we will be obligated to pay such outstanding amounts within 10 days of a written demand from CIT. If we fail to pay such amount, interest will accrue at a rate of 9% per annum on any unpaid amounts. To date, we have not made any payments under these guarantees.

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

In connection with the guarantees, we were granted options to purchase ordinary shares of Grace. As of December 30, 2007, we determined that the fair values of the guarantees and the options were not material to our consolidated financial statements.

The following table summarizes the terms of the guarantees between us and CIT:

Fiscal Year	Number of Guarantees	Lease Term of Equipment Under Each Guarantee	Total Rental Payments Due		Total Irrevocable Letters of Credit		Grace Shares Granted to Cypress
			At Inception	As of	At Inception	As of	
				December 30, 2007		December 30, 2007	
(In thousands)							
2006	One	36 months	\$ 8,255	\$ 5,503	\$ 6,392	\$ 5,092	2,272
2007	Five	36 months	42,278	34,424	32,726	30,314	16,955
			\$50,533	\$39,927	\$39,118	\$35,406	19,227

Under the current terms of the agreement as approved by our Board of Directors, the maximum amount of all guaranteed equipment lease obligations will not exceed approximately \$60 million. We are under no obligation to guarantee any future payments on additional equipment leases for the benefit of Grace and will do so only in our sole discretion.

Off-Balance Sheet Arrangements:

Synthetic Lease:

In June 2003, we entered into a synthetic lease agreement for four facilities located in San Jose, California and one facility located in Bloomington, Minnesota. The synthetic lease required us to purchase the properties from the lessor for \$62.7 million or to arrange for the properties to be acquired by a third party at lease expiration, which was June 2008. The synthetic lease obligation of \$62.7 million was not recorded in the Consolidated Balance Sheets. The synthetic lease required monthly payments to the lessor that varied based on LIBOR plus a spread. Such payments totaled approximately \$0.7 million in fiscal 2007, \$3.6 million in fiscal 2006 and \$2.5 million in fiscal 2005.

We were required to evaluate periodically the expected fair value of the properties at the end of the lease term. As we determined that it was estimable and probable that the expected fair value of the properties at the end of the lease term would be less than \$62.7 million, we ratably accrued for the impairment loss over the remaining lease term. As of December 31, 2006, the total impairment loss accrual was \$5.7 million, of which \$2.7 million was recorded in fiscal 2006, \$1.2 million was recorded in fiscal 2005 and \$1.8 million was recorded in fiscal 2004. The fair value analysis on the properties was performed by management with the assistance of independent appraisal firms.

We were also required to maintain restricted cash to serve as collateral for the synthetic lease. As of December 31, 2006, the balance of restricted cash and accrued interest income was \$63.3 million.

During fiscal 2007, we exercised our option to purchase the properties under the synthetic lease, which included land and buildings, for \$62.7 million from the lessor. The payment was made using the restricted cash collateral. At the date of termination, we determined that an impairment loss of \$12.7 million existed, representing the difference between the properties' fair value of \$50.0 million determined at the date of termination and the lease obligation of \$62.7 million. As a result, we recorded an additional impairment loss of \$7.0 million in fiscal 2007, representing the difference

between the total impairment loss of \$12.7 million and \$5.7 million that had previously been accrued. In addition, we recorded \$50.0 million related to the properties in “Property, plant and equipment, net” in the Consolidated Balance Sheet in fiscal 2007.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “Business Combinations” (“SFAS No. 141(R)”). SFAS No. 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity’s deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption is prohibited. We will adopt this pronouncement in the first quarter of fiscal 2009 and are currently evaluating the potential impact of this pronouncement on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51” (“SFAS No. 160”), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent’s ownership interest in a subsidiary and the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. We will adopt this pronouncement in the first quarter of fiscal 2009 and are currently evaluating the potential impact of this pronouncement on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS No. 159”), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We will adopt this pronouncement in the first quarter of fiscal 2008 and are currently evaluating the potential impact of the pronouncement on our consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS No. 157”), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157, as originally issued, was effective for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB deferred the effective date of SFAS No. 157 for one year as it relates to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. We will adopt SFAS No. 157 as it relates to financial assets and liabilities in the first quarter of fiscal 2008 and are currently evaluating the potential impact of the pronouncement on our consolidated financial condition and results of operations.

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to

file a return in a particular jurisdiction). We adopted this standard in the first quarter of fiscal 2007. See Note 18 of Notes to Consolidated Financial Statements under Item 8 for further discussion.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements included in this Annual Report on Form 10-K and the data used to prepare them. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and we are required to make estimates, judgments and assumptions in the course of such preparation. Note 1 of Notes to Consolidated Financial Statements under Item 8 describes the significant accounting policies and methods used in the preparation of the consolidated financial statements. On an ongoing basis, we re-evaluate our judgments and estimates including those related to revenue recognition, allowances for doubtful accounts receivable, inventory valuation, valuation of long-lived assets, goodwill and investments, stock-based compensation, warranty reserves, litigation, investigation and settlement costs, and income taxes. We base our estimates and judgments on historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies that are affected by significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements are as follows:

Revenue Recognition:

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

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

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

Our revenue reporting is highly dependent on receiving pertinent, accurate and timely data from our distributors. Distributors provide us periodic data regarding the product, price, quantity, and end customer when products are resold as well as the quantities of our products they still have in stock. Because the data set is large and complex and because there may be errors in the reported data, we

must use estimates and apply judgments to reconcile distributors' reported inventories to their activities. Actual results could vary from those estimates.

SunPower recognizes revenues from fixed price construction contracts under the American Institute of Certified Public Accountants ("AICPA") Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts," using the percentage-of-completion method of accounting. Under this method, revenues arising from fixed price construction contracts are recognized as work is performed based on the percentage of incurred costs to estimated total forecasted costs utilizing the most recent estimates of forecasted costs.

Incurred costs include all direct material, labor, subcontract costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools and repairs. Job material costs are included in incurred costs when the job materials have been installed. Where contracts stipulate that title to job materials transfers to the customer before installation has been performed, revenues are deferred and recognized upon installation, in accordance with the percentage-of-completion method of accounting. Job materials are considered installed materials when they are permanently attached or fitted to the solar power system as required by the job's engineering design.

Due to inherent uncertainties in estimating cost, job costs estimates are reviewed and/or updated by SunPower's management, who determines the completed percentage of installed job materials at the end of each month; generally this information is also reviewed with the customer's on-site representative. The completed percentage of installed job materials is then used for each job to calculate the month-end job material costs incurred. Direct labor, subcontractor and other costs are charged to contract costs as incurred. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. Contracts may include profit incentives such as milestone bonuses. These profit incentives are included in the contract value when their realization is reasonably assured.

Allowances for Doubtful Accounts Receivable:

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

Valuation of Inventories:

Management periodically reviews the adequacy of our inventory reserves. We record a write-down for our inventories which have become obsolete or are in excess of anticipated demand or net realizable value. We perform a detailed review of inventories each quarter that considers multiple factors including demand forecasts, product life cycle status, product development plans and current sales levels. Inventory reserves are not relieved until the related inventory has been sold or scrapped. Our inventories may be subject to rapid technological obsolescence and are sold in a highly competitive industry. If there were a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to record additional write-downs, and our gross margin could be adversely affected.

Valuation of Long-Lived Assets:

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

We evaluate our long-lived assets, including property, plant and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for our business, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. Impairments are recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analysis. If there is a significant adverse change in our business in the future, we may be required to record impairment charges on our long-lived assets.

Valuation of Goodwill:

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable. Actual future results may differ from those estimates. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of our reporting units. Our annual goodwill impairment analysis did not result in an impairment charge. However, changes in these estimates could cause one or more of the businesses to be valued differently, which could result in an impairment of our goodwill in the future.

Valuation of Equity Investments:

We have equity investments in both publicly traded and privately held companies. We review our investments periodically for impairment and the assessment requires significant judgment. We recognize an impairment charge when the carrying value of an investment exceeds its fair value and the decline in value is deemed to be other-than-temporary. Fair values for investments in public companies are determined using quoted market prices. We consider various factors in determining whether we should recognize an impairment charge on a publicly traded investment, including the length of time and extent to which the fair value has been less than our cost basis, the financial condition and near-term prospects of the investee, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value.

Our ability to recover our strategic investments in non-marketable equity securities is primarily dependent on how successfully these companies are able to execute their business plans and how well their products are ultimately accepted, as well as their ability to obtain venture capital funding to continue operations and to grow. These investments are inherently risky because the markets for the technologies or products these companies are developing are typically in the early stages and may never materialize.

Our impairment assessment on investments in privately held companies includes the review of each investee's financial condition, the business outlook for its products and technology, its projected results and cash flows, the likelihood of obtaining subsequent rounds of financing and the impact of any relevant contractual equity preferences held by us or others. If an investee obtains additional funding at a valuation lower than our carrying amount, we presume that the investment is impaired, unless specific facts and circumstances indicate otherwise. We have experienced substantial impairments in our portfolio of equity securities in the past. If market and business conditions for our investees deteriorate in the future, we may be required to record additional impairment charges on our investments.

Stock-Based Compensation:

Effective January 2, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), "Share-Based Payments." Under the fair value recognition provisions of SFAS No. 123(R), we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest over the requisite service period of the awards. Determining the appropriate fair value model and calculating the fair value of share-based payment awards require the input of highly subjective assumptions, including the expected life of the share-based payment awards and stock price volatility. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If our actual forfeiture rate is materially different from our estimate, our future stock-based compensation expense could be significantly different from what we have recorded.

Warranty Reserves:

Cypress generally warrants its products against defects in materials and workmanship for a period of one year. SunPower warrants or guarantees the performance of its solar panels at certain levels of power output for extended periods, often as long as 25 years. It also warrants the solar cells for at least ten years. In addition, SunPower generally provides warranty on systems installed for a period of five years. We maintain warranty reserves to cover potential liability that could arise from these guarantees. Our warranty reserves reflect our best estimate of such liabilities and are based on our analysis of product returns, results of industry-standard accelerated testing in SunPower's products and various other assumptions that we believe to be reasonable under the circumstances. We recognize our warranty reserve as a component of cost of revenue. If actual liabilities differ from estimates, additional warranty reserves could be required.

Litigation, Investigation and Settlement Costs:

From time to time, we are involved in legal actions arising in the ordinary course of business. We are aggressively defending our current litigation matters. However, there are many uncertainties associated with any litigation or investigations, and we cannot be certain that these actions or other third-party claims against us will be resolved without costly litigation and/or substantial settlement payments. If that occurs, our business, financial condition and results of operations could be materially and adversely affected. If information becomes available that causes us to determine that a loss in any of our pending litigation or investigations is probable, and we can reasonably estimate the loss associated with such litigation or investigations, we will record the loss in accordance with accounting principles generally accepted in the United States. However, the actual liability in any such litigation or investigations may be materially different from our estimates, which could require us to record additional legal costs.

Accounting for Income Taxes:

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risks

As of December 30, 2007, our non-equity investment portfolio consisted of a variety of financial instruments, including, but not limited to, money market securities, commercial paper, corporate securities and government-sponsored agency notes. These investments are generally classified as available-for-sale and, consequently, are recorded on our balance sheet at fair market value with their related unrealized gain or loss reflected as a component of "Accumulated other comprehensive income (loss)." Due to the relatively short-term nature of our investment portfolio, we do not believe that an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio. Since we believe we have the ability to liquidate this portfolio, we do not expect our operating results or cash flows to be materially affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

Auction Rate Securities

As of December 30, 2007, our investment portfolio included \$95.3 million of auction rate securities, which are investments with contractual maturities generally between 20 to 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations whose interest rates are reset every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par.

The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the United States Federal Department of Education. In addition, all auction rate securities held by us are rated by the major independent rating agencies as either AAA or Aaa.

Most of these auction rate securities were scheduled to reset subsequent to December 30, 2007. As of February 28, 2008, \$44.9 million of our auction rate securities have failed auctions, and we expect that the remaining auction rate securities will fail, due to sell orders exceeding buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. In the event we

need to access these funds associated with failed auctions, they are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. As a result, we have classified \$67.8 million of the auction rate securities as long-term investments as of December 30, 2007. This amount represents the balance of the auction rate securities as of December 30, 2007 that had not been sold by us subsequent to the end of fiscal 2007.

We determined that no other-than-temporary impairment losses existed as of December 30, 2007 as all holdings had successful auctions. However, if the issuer of the auction rate securities is unable to successfully close future auctions or does not redeem the auction rate securities, or the United States government fails to support its guaranty of the obligations, we may be required to adjust the carrying value of the auction rate securities and record other-than-temporary impairment charges in future periods.

Convertible Debt

The fair market value of our convertible debt is subject to interest rate risk and market risk due to the convertible feature. The following table summarizes certain information related to our convertible debt as of December 30, 2007:

Convertible Debt	Fair Value	Fair Value Given a 10% Increase in Market Prices	Fair Value Given a 10% Decrease in Market Prices
		(In thousands)	
Cypress 1.00% convertible senior notes	\$978,162	\$1,075,978	\$880,346
SunPower 1.25% senior convertible debentures	\$465,576	\$ 512,134	\$419,018
SunPower 0.75% senior convertible debentures	\$366,316	\$ 402,947	\$329,684

The fair value of the convertible debt is determined based on the quoted prices as reported by Bloomberg, which were \$1,630.27 per \$1,000 principal amount for Cypress's 1.00% convertible senior notes, \$2,327.88 per \$1,000 principal amount for SunPower's 1.25% senior convertible debentures, and \$1,628.07 per \$1,000 principal amount for SunPower's 0.75% senior convertible debentures as of December 30, 2007.

The fair value of the convertible debt will increase as interest rates fall and decrease as interest rates rise. In addition, the fair market value of the convertible debt will increase as the market price of our common stock increases and decrease as the stock price falls. As of February 22, 2008, the fair value of the convertible debt was \$1,168.74 per \$1,000 principal amount for Cypress's 1.00% convertible senior notes, \$1,501.47 per \$1,000 principal amount for SunPower's 1.25% senior convertible debentures, and \$1,132.04 per \$1,000 principal amount for SunPower's 0.75% senior convertible debentures.

Foreign Currency Exchange Risks

The majority of our revenues, expenses and capital spending is transacted in U.S. dollar. However, we do enter into transactions in other currencies, primarily the Euro. Our hedging programs reduce, but do not always eliminate, the impact of foreign currency exchange rate movements. We entered into a series of Euro forward and option contracts to hedge forecasted foreign denominated revenues and selected capital equipment purchases. The total notional amount of these contracts was \$199.9 million as of December 30, 2007. A 10% foreign currency exchange rate movement would have an impact of approximately \$14.2 million on these contracts.

Investments in Publicly Traded and Privately Held Companies

We have investments, including marketable equity securities and warrants, in certain publicly traded companies other than SunPower. The marketable equity securities are classified as available-for-sale investments. They are recorded in the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a component in “Accumulated other comprehensive income (loss)” in the Consolidated Balance Sheets. In addition, our investments include warrants to purchase shares of a public company’s common stock. These warrants are classified as derivative instruments and are carried at fair value with the resulting gains or losses recognized in “Other income (expense), net” in the Consolidated Statements of Operations.

The fair value of the common stock and warrants is subject to market price volatility. The following table summarizes certain information related to these investments as of December 30, 2007:

Investments	Fair Value	Fair Value Given a 10% Increase in Stock Prices	Fair Value Given a 10% Decrease in Stock Prices
		(In thousands)	
Marketable equity securities	\$9,225	\$10,147	\$8,302
Warrants	\$ 784	\$ 878	\$ 690

Our investment portfolio also includes warrants that are not classified as derivative instruments or available-for-sale securities. These warrants are carried at cost and as of December 30, 2007, the carrying value of these warrants was \$1.9 million.

We have equity investments in several privately held companies, many of which are start-up or development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. As our equity investments generally do not permit us to exert significant influence or control, these amounts generally represent our cost of the investments, less any adjustments we make when we determine that an investment’s net realizable value is less than its carrying cost. As of December 30, 2007, the carrying value of our investments in privately held companies was \$9.5 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Consolidated Balance Sheets	76
Consolidated Statements of Operations	77
Consolidated Statements of Stockholders' Equity	78
Consolidated Statements of Cash Flows	80
Notes to Consolidated Financial Statements	82
Report of Independent Registered Public Accounting Firm	156
Schedule II—Valuation and Qualifying Accounts	167

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 30, 2007	December 31, 2006
	(In thousands, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,093,657	\$ 413,536
Short-term investments	332,748	166,638
Total cash, cash equivalents and short-term investments	1,426,405	580,174
Accounts receivable, net	236,275	163,196
Inventories	247,587	119,184
Other current assets	157,272	90,074
Total current assets	2,067,539	952,628
Property, plant and equipment, net	714,372	572,018
Goodwill	534,473	360,350
Intangible assets, net	58,858	35,495
Other assets	350,707	203,034
Total assets	\$3,725,949	\$2,123,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 171,126	\$ 92,206
Accrued compensation and employee benefits	46,192	42,402
Deferred income	38,452	44,917
Income taxes payable	16,242	7,321
Convertible debt	1,025,000	—
Other current liabilities	197,535	88,993
Total current liabilities	1,494,547	275,839
Convertible debt	—	598,996
Deferred income taxes and other tax liabilities	57,915	40,471
Other long-term liabilities	74,655	39,188
Total liabilities	1,627,117	954,494
Commitments and contingencies (Note 19)		
Minority interest	378,400	123,472
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.01 par value, 650,000 and 650,000 shares authorized; 192,332 and 145,071 shares issued; 161,648 and 144,844 shares outstanding at December 30, 2007 and December 31, 2006, respectively	1,923	1,451
Additional paid-in-capital	2,344,866	1,469,159
Accumulated other comprehensive income (loss)	11,632	(1,293)
Accumulated deficit	(31,881)	(421,220)
	2,326,540	1,048,097
Less: shares of common stock held in treasury, at cost; 30,684 and 227 shares at December 30, 2007 and December 31, 2006, respectively	(606,108)	(2,538)
Total stockholders' equity	1,720,432	1,045,559
Total liabilities and stockholders' equity	\$3,725,949	\$2,123,525

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands, except per-share amounts)		
Revenues	\$1,596,387	\$1,091,553	\$886,396
Costs and expenses (credits):			
Cost of revenues	1,048,005	631,328	528,657
Research and development	187,803	242,292	225,944
Selling, general and administrative	298,693	186,660	155,640
In-process research and development charges	9,575	—	12,300
Amortization of acquisition-related intangible assets	36,441	15,873	27,709
Impairment of acquisition-related intangible assets	14,068	—	—
Impairment related to synthetic lease	7,006	2,704	1,217
Restructuring charges	583	489	27,426
Gain on divestitures	(17,958)	(14,730)	—
Total costs and expenses, net	1,584,216	1,064,616	978,893
Operating income (loss)	12,171	26,937	(92,497)
Interest income	52,526	31,728	12,393
Interest expense	(10,827)	(9,339)	(8,268)
Gain on sale of SunPower's common stock	373,173	—	—
Other income (expense), net	(28,766)	3,384	(4,845)
Income (loss) before income taxes and minority interest	398,277	52,710	(93,217)
Income tax benefit (provision)	314	(6,859)	1,339
Minority interest, net of tax	(4,291)	(6,369)	(275)
Net income (loss)	<u>\$ 394,300</u>	<u>\$ 39,482</u>	<u>\$ (92,153)</u>
Net income (loss) per share:			
Basic	\$ 2.53	\$ 0.28	\$ (0.69)
Diluted	\$ 2.30	\$ 0.25	\$ (0.69)
Shares used in net income (loss) per share calculation:			
Basic	155,559	140,809	133,188
Diluted	171,836	179,271	133,188

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Amount	
	(In thousands)								
Balances at January 2, 2005	142,157	\$1,421	\$1,149,267	\$(1,989)	\$(2,124)	\$(306,312)	13,664	\$(179,905)	\$ 660,358
Comprehensive loss:									
Net loss	—	—	—	—	—	(92,153)	—	—	(92,153)
Net unrealized gain on available-for-sale investments	—	—	—	—	255	—	—	—	255
Net unrealized gain on derivatives	—	—	—	—	2,633	—	—	—	2,633
Total comprehensive loss	—	—	—	—	—	—	—	—	(89,265)
Issuance of common stock and re-issuance of treasury shares under employee stock plans	—	—	2,299	—	—	(56,893)	(8,134)	120,231	65,637
Issuance of common shares and re-issuance of treasury shares related to acquisitions	287	3	3,000	—	—	(207)	(122)	1,873	4,669
Issuance of stock options related to acquisitions	—	—	3,152	(779)	—	—	—	—	2,373
Gain from SunPower initial public offering	—	—	107,724	—	—	—	—	—	107,724
Stock-based compensation	—	—	3,204	2,377	—	—	—	—	5,581
Premiums received on extension of equity option contracts	—	—	58	—	—	—	—	—	58
Balances at January 1, 2006	142,444	1,424	1,268,704	(391)	764	(455,565)	5,408	(57,801)	757,135
Comprehensive income:									
Net income	—	—	—	—	—	39,482	—	—	39,482
Net unrealized gain on available-for-sale investments	—	—	—	—	758	—	—	—	758
Net unrealized loss on derivatives	—	—	—	—	(2,815)	—	—	—	(2,815)
Total comprehensive income	—	—	—	—	—	—	—	—	37,425
Issuance of common shares and re-issuance of treasury shares under employee stock plans	2,572	26	30,466	—	—	(5,137)	(5,181)	55,263	80,618
Redemption of convertible debt	55	1	700	—	—	—	—	—	701
Stock-based compensation	—	—	50,331	—	—	—	—	—	50,331
Reclassification of deferred stock-based compensation	—	—	(391)	391	—	—	—	—	—
Change of interest in SunPower and minority interest adjustments	—	—	118,632	—	—	—	—	—	118,632
Premiums received on extension of equity option contracts	—	—	717	—	—	—	—	—	717
Balances at December 31, 2006	145,071	\$1,451	\$1,469,159	\$ —	\$(1,293)	\$(421,220)	227	\$ (2,538)	\$1,045,559

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

	Common Stock		Additional Paid-In Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount					Shares	Amount	
	(In thousands)								
Balances at December 31, 2006	145,071	\$1,451	\$1,469,159	\$—	\$(1,293)	\$(421,220)	227	\$(2,538)	\$1,045,559
Comprehensive income:									
Net income	—	—	—	—	—	394,300	—	—	394,300
Net unrealized gain on available-for-sale investments	—	—	—	—	5,232	—	—	—	5,232
Net unrealized loss on derivatives	—	—	—	—	(2,053)	—	—	—	(2,053)
Foreign currency translation adjustments	—	—	—	—	9,746	—	—	—	9,746
Total comprehensive income	—	—	—	—	—	—	—	—	407,225
Issuance of common shares under employee stock plans	14,216	142	218,738	—	—	—	—	—	218,880
Shares withheld for employee taxes related to vested restricted stock and restricted stock units	—	—	—	—	—	—	44	(3,134)	(3,134)
Issuance of SunPower's common shares and stock options related to the PowerLight acquisition	—	—	132,546	—	—	—	—	—	132,546
Redemption of convertible debt	33,045	330	418,931	—	—	—	—	—	419,261
Repurchases of shares under the accelerated share repurchase program	—	—	—	—	—	—	28,862	(571,033)	(571,033)
Purchase of convertible note hedge, net of issuance of warrants	—	—	(16,967)	—	—	—	—	—	(16,967)
Stock-based compensation	—	—	114,723	—	—	—	—	—	114,723
Change of interest in SunPower and minority interest adjustments	—	—	(19,181)	—	—	—	—	—	(19,181)
Adjustments to accumulated deficit upon adoption of FIN 48 and EITF Issue No. 06-2	—	—	—	—	—	(4,961)	—	—	(4,961)
Shares received upon settlement of equity option contract . . .	—	—	25,991	—	—	—	1,442	(25,991)	—
Shares received upon settlement of outstanding employee loans under the stock purchase assistance plan	—	—	—	—	—	—	84	(2,912)	(2,912)
Other	—	—	926	—	—	—	25	(500)	426
Balances at December 30, 2007	192,332	\$1,923	\$2,344,866	\$—	\$11,632	\$(31,881)	30,684	\$(606,108)	\$1,720,432

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ 394,300	\$ 39,482	\$ (92,153)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	149,268	128,476	145,783
Stock-based compensation	112,604	47,452	5,581
In-process research and development charges	9,575	—	12,300
Impairment of acquisition-related intangible assets	14,068	—	—
Impairment related to synthetic lease	7,006	2,704	1,217
Impairment of investments	1,903	5,325	826
Write-off of notes receivable	—	1,804	—
Write-off of debt issuance costs	19,920	—	—
Loss on sale/retirement of property and equipment, net	225	2,005	1,686
Gain on divestitures	(17,958)	(14,730)	—
Gain on sale of SunPower's common stock	(373,173)	—	—
Gain on investments in equity securities	(929)	(10,027)	—
Gain on deferred compensation plan	(2,124)	—	—
Interest on the stock purchase assistance plan ("SPAP") loans	(976)	(1,153)	(1,892)
Reduction in allowance for uncollectible SPAP loans	(7,479)	—	—
Restructuring charges	583	489	10,482
Deferred income taxes	(3,627)	(815)	(7,312)
Minority interest	4,291	6,369	275
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	(28,758)	(11,983)	(43,017)
Inventories	(100,299)	(47,439)	27,534
Other assets	(120,970)	(88,884)	6,919
Accounts payable and other accrued liabilities	77,494	52,672	16,810
Deferred income	(6,465)	15,513	(4,021)
Net cash provided by operating activities	<u>128,479</u>	<u>127,260</u>	<u>81,018</u>
Cash flows from investing activities:			
Purchases of available-for-sale investments	(521,431)	(141,257)	(87,654)
Proceeds from sales or maturities of available-for-sale investments	294,078	152,716	157,238
Proceeds from sale of SunPower's common stock	437,250	—	—
Cash paid for other investments	(1,763)	(11,551)	(4,000)
Acquisition of property, plant and equipment	(230,263)	(221,160)	(146,460)
Cash used for acquisitions, net of cash acquired	(98,645)	—	(48,060)
Proceeds from divestitures	78,398	8,000	—
Proceeds from settlement of SPAP loan principal	27,585	14,475	1,748
Proceeds from deferred compensation plan	6,608	—	—
Proceeds from sales of property and equipment	133	1,602	534
Increase of restricted cash	(63,176)	—	—
Issuance of note receivable	—	(10,000)	—
Net cash used in investing activities	<u>(71,226)</u>	<u>(207,175)</u>	<u>(126,654)</u>

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Cash flows from financing activities:			
Repayment of borrowings	(3,563)	(6,221)	(11,071)
Redemption of convertible debt	(179,735)	(300)	—
Proceeds from issuance of convertible debt	1,025,000	—	—
Debt issuance costs	(23,832)	—	—
Purchase of convertible note hedge, net of proceeds from issuance of warrants	(16,967)	—	—
Repurchase of shares under the accelerated share repurchase program	(571,033)	—	—
Issuance of common shares and re-issuance of treasury shares under employee stock plans	218,880	80,618	65,637
Proceeds from SunPower's public offerings, net	167,379	197,431	145,599
Proceeds from extension of equity option contracts	—	717	58
Net cash provided by financing activities	<u>616,129</u>	<u>272,245</u>	<u>200,223</u>
Effect of exchange rate changes on cash and cash equivalents	6,739	—	—
Net increase in cash and cash equivalents	680,121	192,330	154,587
Cash and cash equivalents, beginning of year	413,536	221,206	66,619
Cash and cash equivalents, end of year	<u>\$1,093,657</u>	<u>\$ 413,536</u>	<u>\$ 221,206</u>
Supplemental disclosures:			
Cash paid during the year for:			
Interest	\$ 6,349	\$ 9,265	\$ 8,227
Income taxes	\$ 3,673	\$ 2,256	\$ 1,716
Non-cash items:			
Issuance of Cypress's common shares from redemption of convertible debt	\$ 419,261	\$ 701	\$ —
Issuance of SunPower's and Cypress's common shares and stock options in connection with acquisitions	\$ 132,546	\$ —	\$ 4,669
Purchase of properties under the synthetic lease, using restricted cash collateral	\$ 50,087	\$ —	\$ —
Capital stock received from divestitures	\$ —	\$ 64,937	\$ —

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

Cypress Semiconductor Corporation (“Cypress” or the “Company”) designs, develops, manufactures and markets high-performance, mixed-signal, programmable solutions that provide customers with rapid time-to-market and system value. Cypress’s offerings include the Programmable System-on-Chip™ (“PSoC®”) products, universal serial bus (“USB”) controllers, general-purpose programmable clocks and memories. Cypress also offers wired and wireless connectivity solutions that enhance connectivity and performance in multimedia handsets and other systems. Cypress serves numerous markets including consumer, computation, data communications, automotive and industrial.

In addition, Cypress is a majority shareholder of SunPower Corporation (“SunPower”), a publicly traded solar products and services company which designs, manufactures and markets high-performance solar electric power technologies.

The Company’s operations outside of the United States include its manufacturing facilities, assembly and test plants and regional headquarters in the Philippines, and sales offices and design centers located in various parts of the world.

Fiscal Years

The Company’s fiscal year ends on the Sunday closest to December 31. Fiscal 2007 ended on December 30, 2007. Fiscal 2006 ended on December 31, 2006. Fiscal 2005 ended on January 1, 2006. All three fiscal years contained 52 weeks.

Financial Statement Preparation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Cypress and all of its subsidiaries, including SunPower. Inter-company transactions and balances have been eliminated in consolidation. Certain prior-year amounts have been reclassified to conform to current-year presentation.

Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and assumptions used in these consolidated financial statements primarily include those related to revenue recognition, percentage-of-completion accounting for SunPower’s construction projects, inventory valuation, valuation of goodwill and intangible assets, valuation of investments, valuation of share-based payment awards, allowances for doubtful accounts, warranty reserves, certain other accrued liabilities and tax valuation allowances. Actual results could differ from those estimates.

Fair Value of Financial Instruments

For certain of the Company’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. Investments in available-for-sale securities are carried at fair value based on quoted market prices or estimated based on quoted market prices for

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

financial instruments with similar characteristics. The Company's convertible debt is recorded at the carrying values, not the estimated fair values.

Cash and Cash Equivalents

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

Investments

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

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

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. The Company writes down its inventories which have become obsolete or are in excess of anticipated demand or net realizable value based upon assumptions about demand forecasts, product life cycle status, product development plans and current sales levels. Inventory reserves are not relieved until the related inventory has been sold or scrapped.

Long-Lived Assets

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

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

The Company evaluates its long-lived assets, including property, plant and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Assets” (“SFAS No. 144”). Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, significant negative industry or economic trends, and a significant decline in the Company’s stock price for a sustained period of time. Impairment is recognized based on the difference between the fair value of the asset and its carrying value. Fair value is generally measured based on either quoted market prices, if available, or discounted cash flow analyses.

Goodwill and Intangible Assets

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”), goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Purchased intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives and are reviewed for impairment as discussed above.

Revenue Recognition

The Company generates revenues by selling products to distributors, various types of manufacturers including original equipment manufacturers (“OEMs”), electronic manufacturing service providers (“EMSs”) and, in the case of SunPower, system integrators. The Company recognizes revenues on sales to OEMs, EMSs and system integrators upon shipment provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, title has transferred, collection of resulting receivables is reasonably assured, there are no customer acceptance requirements, and there are no remaining significant obligations.

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

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Construction Contracts

SunPower recognizes revenues from fixed price construction contracts under the American Institute of Certified Public Accounts (“AICPA”) Statement of Position (“SOP”) 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts,” using the percentage-of-completion method of accounting. Under this method, revenues arising from fixed price construction contracts are recognized as work is performed based on the percentage of incurred costs to estimated total forecasted costs utilizing the most recent estimates of forecasted costs.

Incurred costs include all direct material, labor, subcontract costs and those indirect costs related to contract performance, such as indirect labor, supplies and tools. Job material costs are included in incurred costs when the job materials have been installed. Where contracts stipulate that title to job materials transfers to the customer before installation has been performed, revenues are deferred and recognized upon installation, in accordance with the percentage-of-completion method of accounting. Job materials are considered installed materials when they are permanently attached or fitted to the solar power system as required by the job’s engineering design.

Due to inherent uncertainties in estimating cost, job costs estimates are reviewed and/or updated by SunPower’s management, who determines the completed percentage of installed job materials at the end of each month; generally this information is also reviewed with the customer’s on-site representative. The completed percentage of installed job materials is then used for each job to calculate the month-end job material costs incurred. Direct labor, subcontractor and other costs are charged to contract costs as incurred. Provisions for estimated losses on uncompleted contracts, if any, are recognized in the period in which the loss first becomes probable and reasonably estimable. Contracts may include profit incentives such as milestone bonuses. These profit incentives are included in the contract value when their realization is reasonably assured.

As of December 30, 2007, the asset “Costs and estimated earnings in excess of billings,” which represents revenues recognized in excess of amounts billed, totaled \$39.7 million. The liability “Billings in excess of costs and estimated earnings,” which represents billings in excess of revenues recognized, totaled \$69.9 million. Ending balances in “Costs and estimated earnings in excess of billings” and “Billings in excess of costs and estimated earnings” are highly dependent on contractual billing schedules which are not necessarily related to the timing of revenue recognition. The following tables present additional information as of December 30, 2007:

(In thousands)

Costs and estimated earnings in excess of billings on contracts in progress	\$ 39,136
Less: billings in excess of costs and estimated earnings on contracts in progress	69,900
Net	<u><u>\$(30,764)</u></u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(In thousands)

Costs incurred to date on contracts in progress	\$ 481,340
Estimated earnings to date	145,643
Contract revenue earned to date	626,983
Less: billings to date, including earned incentive rebates	(657,747)
Net	<u>\$ (30,764)</u>

Deferred project costs represent uninstalled materials on contracts for which title had transferred to the customer and are recognized as deferred assets until installation. As of December 30, 2007, deferred project costs totaled \$8.3 million.

Shipping and Handling Costs

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

Advertising Costs

Advertising costs consist of development and placement costs of the Company's advertising campaigns and are charged to expense when incurred. Advertising expense was approximately \$10.1 million, \$6.8 million and \$6.3 million for fiscal 2007, 2006 and 2005, respectively.

Foreign Currency Transactions

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

Certain foreign subsidiaries of SunPower designate the local currencies as their functional currencies. Assets and liabilities of these entities are translated to the United States dollar at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates in effect during the period. The resulting translation adjustments are recorded as a component of "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets.

Concentration of Credit Risk

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The Company performs ongoing credit evaluations of its customers' financial condition whenever deemed necessary and generally does not require collateral. The Company maintains an allowance for doubtful accounts based upon the expected collectibility of all accounts receivable. One customer of SunPower accounted for approximately 12% of consolidated accounts receivable as of December 30, 2007. Two customers of SunPower each accounted for approximately 10% of consolidated accounts receivable as of December 31, 2006.

Income Taxes

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

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

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, acquired contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141(R), changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption is prohibited. The Company will adopt this pronouncement in the first quarter of fiscal 2009 and is currently evaluating the potential impact of this pronouncement on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51" ("SFAS No. 160"), which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary, changes in a parent's ownership interest in a subsidiary and the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is prohibited. The Company will adopt this pronouncement in the first quarter of fiscal 2009 and is currently evaluating the potential impact of this pronouncement on its consolidated results of operations and financial condition.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"), which permits entities to choose to measure eligible financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt this pronouncement in the first quarter of fiscal 2008 and is currently evaluating the potential impact of the pronouncement on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"), which clarifies the definition of fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements and eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157, as originally issued, was effective for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB deferred the effective date of SFAS No. 157 for one year as it relates to non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Company will adopt SFAS No. 157 as it relates to financial assets and liabilities in the first quarter of fiscal 2008 and is currently evaluating the potential impact of the pronouncement on its consolidated financial condition and results of operations.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). The Company adopted this standard in the first quarter of fiscal 2007 (see Note 18).

NOTE 2. SUNPOWER

Cypress' Ownership Interest in SunPower

The following table summarizes Cypress's ownership interest in SunPower:

	As of		
	December 30, 2007	December 31, 2006	January 1, 2006
Number of shares of SunPower's class B common stock owned by Cypress	44.5 million	52.0 million	52.0 million
As a percentage of SunPower's total outstanding capital stock	56%	75%	85%
As a percentage of SunPower's total outstanding capital stock on a fully diluted basis	51%	70%	77%
As a percentage of the total voting power of SunPower's outstanding capital stock	90%	96%	98%

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. SUNPOWER (Continued)

In May 2007, Cypress sold 7.5 million shares of SunPower's class A common stock (which were converted from class B common stock) on the open market. As a result of the transaction, Cypress received net proceeds of \$437.3 million and recorded a gain of \$373.2 million in the Consolidated Statement of Operations.

Based on the quoted market prices, the fair value of Cypress's ownership interest in SunPower was approximately \$5.8 billion, \$1.9 billion and \$1.8 billion at December 30, 2007, December 31, 2006 and January 1, 2006, respectively. As the Company's financial statements are presented on a consolidated basis, the fair value of Cypress's ownership interest in SunPower is not recorded as an asset in the Consolidated Balance Sheets.

As of December 30, 2007, there were no outstanding lock-up agreements between Cypress, SunPower or any third parties under which Cypress agreed not to sell any of its SunPower's class B common shares.

Cypress currently does not have any plans to distribute to its stockholders shares of SunPower's class B common stock, although Cypress may elect to do so in the future. Cypress is continuing to explore ways in which to allow its stockholders to fully realize the value of its investment in SunPower. There can be no assurance that Cypress will commence or conclude a transaction, or take any other actions.

SunPower's Capital Stock

Currently, SunPower has two classes of authorized common stock: class A common stock and class B common stock. Only Cypress, its successors in interest and its subsidiaries may hold shares of SunPower's class B common stock unless Cypress distributes the shares to its stockholders in a tax-free distribution.

Voting Rights:

Shares of class A common stock and class B common stock have substantially similar rights except that shares of class A common stock are entitled to one vote per share while shares of class B common stock are entitled to eight votes per share, on all matters to be voted on by SunPower's stockholders. Holders of shares of SunPower's capital stock are not entitled to cumulate their votes in the election of directors to SunPower's board of directors. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast at a meeting by all shares of class A common stock and class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock. Except as otherwise provided by law, and subject to any voting rights granted to any outstanding preferred stock, amendments to SunPower's restated certificate of incorporation generally must be approved by at least a majority of the combined voting power of all SunPower's class A common stock and class B common stock, voting together as a single class. However, shares of class A common stock are not eligible to vote on any alteration or change in the powers, preferences, or special rights of the class B common stock that would not adversely affect the rights of the class A common stock.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. SUNPOWER (Continued)

Conversion Rights:

Cypress, its successors in interest or its subsidiaries may convert their shares of SunPower's class B common stock into shares of SunPower's class A common stock on a one-for-one basis at any time. Prior to a tax-free distribution by Cypress of its shares of SunPower's class B common stock to its stockholders, the class B common shares will automatically convert into shares of class A common stock if such shares are transferred to a person other than Cypress, its successors in interest or its subsidiaries. In most circumstances in the event that Cypress owns less than 40% of the shares of all classes of SunPower's common stock then outstanding, each outstanding share of class B common stock will automatically convert into one share of class A common stock.

Dividend Rights:

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of SunPower's class A common stock and class B common stock are entitled to receive dividends out of assets legally available at the times and in the amounts that SunPower's board of directors may determine from time to time.

No Preemptive or Redemption Rights:

SunPower's class A common stock and class B common stock are not entitled to preemptive rights and are not subject to redemption or sinking fund provisions.

Right to Receive Liquidation Distributions:

Upon SunPower's liquidation, dissolution or winding-up, the holders of SunPower's class A common stock and class B common stock are entitled to share equally in all of SunPower's assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock.

Registration Rights:

SunPower is a party to an investor rights agreement with Cypress providing for specified registration and other rights relating to shares of its common stock. In connection with the completion of the acquisition of PowerLight, SunPower filed with the Securities and Exchange Commission, and agreed to keep effective for a period of up to three years from the effectiveness thereof, a registration statement covering the resale of the shares of SunPower's class A common stock issued to the former shareholders of PowerLight in that transaction. SunPower has not entered into, and does not expect to enter into, any other agreements, with any of its other stockholders obligating or requiring SunPower to register shares of its class A common stock.

SunPower's Issuance of Common Shares

Fiscal 2007:

In July 2007, SunPower completed a follow-on public offering of 2.7 million shares of its class A common stock at a price of \$64.50 per share and received net proceeds of approximately \$167.4 million. In January 2007, SunPower issued 4.1 million shares of its class A common stock in connection with the acquisition of PowerLight. In connection with these change of interest transactions,

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. SUNPOWER (Continued)

Cypress recognized total gains of approximately \$209.1 million in fiscal 2007 and included the gains in “Additional paid-in capital” in the Consolidated Balance Sheet.

Fiscal 2006:

In June 2006, SunPower completed a follow-on public offering of 7.0 million shares of its class A common stock at a per-share price of \$29.50 and received net proceeds of approximately \$197.4 million. Cypress recognized a gain of \$126.4 million in connection with this change of interest transaction and included the gain in “Additional paid-in capital” in the Consolidated Balance Sheet.

Fiscal 2005:

At the end of the third quarter of fiscal 2005, Cypress had a 100% ownership of all of SunPower’s then outstanding shares of capital stock. During the fourth quarter of fiscal 2005, SunPower completed the initial public offering (“IPO”) of 8.8 million shares of its class A common stock, resulting in net proceeds of \$145.6 million. In connection with the IPO, Cypress recorded a gain of approximately \$107.7 million and included it in “Additional paid-in-capital” in the Consolidated Balance Sheet. Upon the completion of the IPO, Cypress owned a total of 52.0 million shares of class B common stock.

Agreements between Cypress and SunPower

Lease Agreement:

SunPower has entered into an agreement with Cypress relating to SunPower’s manufacturing facility in the Philippines. The lease term runs through July 2021. Under the lease, SunPower will pay Cypress at a rate equal to the cost to Cypress for that facility until the earlier of November 2015 or a change in control of SunPower occurs, which includes such time as Cypress ceases to own at least a majority of the aggregate number of shares of all classes of SunPower’s common stock then outstanding. Thereafter, SunPower will pay market rate rent for the facility. SunPower will have the right to purchase the facility from Cypress at any time at Cypress’ original purchase price of approximately \$8.0 million, plus interest computed on a variable index starting on the date of purchase by Cypress until the sale to SunPower, unless such purchase option is exercised after a change of control of SunPower, in which case the purchase price shall be at a market rate, as reasonably determined by Cypress. The lease agreement also contains certain indemnification and exculpation provisions by SunPower for the benefit of Cypress as lessor.

In addition, SunPower has entered into a lease agreement for its San Jose, California, headquarters, which is located in a building owned by Cypress, for \$6.0 million over the five-year term of the lease. The lease agreement was subsequently amended, which increased the rentable square footage and the total lease obligations to \$6.9 million over the five-year term of the lease. In the event Cypress decides to sell the building, SunPower has the right of first refusal to purchase the building at a fair market price which will be based on comparable sales in the area.

Employee Matters Agreement:

SunPower has entered into an employee matters agreement with Cypress to allocate assets, liabilities and responsibilities relating to its current and former United States and international employees and its employees’ participation in the employee benefits plans that Cypress sponsors and maintains.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. SUNPOWER (Continued)

SunPower's eligible employees generally remain able to participate in Cypress's benefit plans, as they may change from time to time. SunPower is responsible for all liabilities incurred with respect to the Cypress plans by SunPower as a participating company in such plans. SunPower intends to have its own benefit plans established by the time its employees no longer are eligible to participate in Cypress's benefit plans. Once SunPower has established its own benefit plans, SunPower will have the ability to modify or terminate each plan in accordance with the terms of those plans and SunPower's policies. It is SunPower's intent that employees not receive duplicate benefits as a result of participation in its benefit plans and the corresponding Cypress benefit plans.

All of SunPower's eligible employees are able to continue to participate in Cypress's health plans, life insurance and other benefit plans as they may change from time to time, until the earliest of: (1) a change of control of SunPower occurs, (2) such time as SunPower's status as a participating company under the Cypress plans is not permitted by a Cypress plan or by applicable law, (3) such time as Cypress determines in its reasonable judgment that SunPower's status as a participating company under the Cypress plans has or will adversely affect Cypress, or its employees, directors, officers, agents, affiliates or its representatives, or (4) such earlier date as SunPower and Cypress mutually agree.

Indemnification and Insurance Matters Agreement:

SunPower will indemnify Cypress and its affiliates, agents, successors and assigns from all liabilities arising from environmental conditions existing on, under, about or in the vicinity of any of SunPower's facilities, or arising out of operations occurring at any of SunPower's facilities, including the California facilities, whether prior to or after the IPO; existing on, under, about or in the vicinity of the Philippines facility which SunPower occupies, or arising out of operations occurring at such facility, whether prior to or after the IPO, to the extent that those liabilities were caused by SunPower; arising out of hazardous materials found on, under or about any landfill, waste, storage, transfer or recycling site and resulting from hazardous materials stored, treated, recycled, disposed or otherwise handled by any of SunPower's operations or SunPower's California and Philippines facilities prior to the IPO; and arising out of the construction activity conducted by or on behalf of SunPower at Cypress's Texas manufacturing facility.

The indemnification and insurance matters agreement also contain provisions governing SunPower's insurance coverage, which are under the Cypress insurance policies (other than SunPower's directors and officers insurance, for which SunPower has its own separate policy) until the earliest of (1) a change of control of SunPower, (2) the date on which Cypress's insurance carriers do not permit SunPower to remain on Cypress policies, (3) the date on which Cypress's cost of insurance under any particular insurance policy increases, directly or indirectly, due to SunPower's inclusion or participation in such policy, (4) the date on which SunPower's coverage under the Cypress policies causes a real or potential conflict of interest or hardship for Cypress, as determined solely by Cypress, or (5) the date on which Cypress and SunPower mutually agree to terminate this arrangement. Prior to that time, Cypress will maintain insurance policies on SunPower's behalf, and SunPower shall reimburse Cypress for expenses related to insurance coverage during this period. SunPower will work with Cypress to secure additional insurance if desired and cost effective.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. SUNPOWER (Continued)

Tax Sharing Agreement:

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

After the date SunPower ceases to be a member of Cypress's consolidated group for federal income tax purposes and most state income tax purposes, as and to the extent that SunPower becomes entitled to utilize its separate tax returns portions of those credit or loss carryforwards existing as of such date, SunPower will distribute to Cypress the tax effect, estimated to be 40% for federal income tax purposes, of the amount of such tax loss carryforwards so utilized, and the amount of any credit carryforwards so utilized. SunPower will distribute these amounts to Cypress in cash or common shares, at SunPower's option.

Upon completion of its follow-on public offering of common stock in June 2006, SunPower is no longer considered to be a member of Cypress's consolidated group for federal income tax purposes. Accordingly, SunPower is subject to the obligations payable to Cypress for any federal income tax credit or loss carryforwards utilized in its federal tax returns in subsequent periods, as explained in the preceding paragraph.

SunPower will continue to be jointly and severally liable for any tax liability as governed under federal, state and local law during all periods in which it was deemed to be a member of Cypress's consolidated or combined group. Accordingly, although the tax sharing agreement allocates tax liabilities between Cypress and all its consolidated subsidiaries, for any period in which SunPower is included in Cypress's consolidated group, SunPower could be liable in the event that any federal tax liability was incurred, but not discharged, by any other member of the group.

If Cypress were to distribute SunPower's class B common stock to Cypress's stockholders in a transaction that would qualify as a tax-free distribution under Section 355 of the Internal Revenue Code (the "IRC"), Cypress would obtain an opinion of counsel and/or a ruling from the Internal Revenue Service ("IRS") to the effect that such distribution qualifies under Section 355 of the IRC. Despite such an opinion or ruling, however, the distribution may nonetheless be taxable to Cypress under Section 355(e) of the IRC if 50% or more of SunPower's voting power or economic value is acquired as part of a plan or series of related transactions that includes the distribution of SunPower's common stock. The tax sharing agreement includes SunPower's obligation to indemnify Cypress for any liability incurred as a result of issuances or dispositions of SunPower's common stock after the distribution, other than liability attributable to certain dispositions of SunPower's common stock by Cypress, that cause Cypress's distribution of SunPower's common stock to its stockholders to be taxable to Cypress under Section 355(e) of the IRC.

The tax sharing agreement further provides for cooperation with respect to tax matters, the exchange of information and the retention of records which may affect the income tax liability of either

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2. SUNPOWER (Continued)

party. Disputes arising between Cypress and SunPower relating to matters covered by the tax sharing agreement are subject to resolution through specific dispute resolution provisions contained in the agreement.

Other agreements:

SunPower has also entered into a wafer manufacturing agreement and a master transition service agreement with Cypress. Both agreements have not historically been material to Cypress's business, financial condition or results of operations.

NOTE 3. BUSINESS COMBINATIONS

PowerLight Corporation ("PowerLight")

In January 2007, SunPower completed the acquisition of PowerLight, a privately held company which developed, engineered, manufactured and delivered large-scale solar power systems for residential, commercial, government and utility customers worldwide. The fair value of the assets acquired and liabilities assumed was recorded in the Company's consolidated balance sheet as of January 10, 2007, the closing date of the transaction, and the results of operations of PowerLight were included in the Company's consolidated results of operations subsequent to January 10, 2007. PowerLight, which has subsequently been renamed to SunPower Corporation, Systems ("SP Systems"), is a part of the Company's SunPower segment.

Pursuant to the terms of the acquisition, all of the outstanding shares of PowerLight, and a portion of each vested option to purchase shares of PowerLight, were cancelled, and all of the outstanding options to purchase shares of PowerLight (other than the portion of each vested option that was cancelled) were assumed by SunPower in exchange for aggregate consideration of: (1) approximately \$120.7 million in cash, plus (2) a total of 5.7 million shares of SunPower's class A common stock, inclusive of: (a) 1.6 million shares of SunPower's class A common stock which may be issued upon the exercise of assumed vested and unvested PowerLight stock options, which options vest on the same schedule as the assumed PowerLight stock options, and (b) 1.1 million shares of SunPower's class A common stock issued to employees of PowerLight which, along with 0.5 million of the shares issuable upon exercise of assumed PowerLight stock options, are subject to certain transfer restrictions and a repurchase option by SunPower, both of which lapse over a two-year period following the acquisition under the terms of certain equity restriction agreements. In addition, under the terms of the agreement, SunPower issued an additional 0.2 million shares of restricted class A common stock to certain employees of PowerLight, which shares are subject to certain transfer restrictions which will lapse over four years following the acquisition.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

The following table summarizes the total purchase consideration and future stock-based compensation:

<u>(In thousands)</u>	<u>Shares</u>	<u>Fair Value</u>
Purchase consideration:		
Cash	—	\$120,694
Common stock	2,961	111,266
Stock options assumed that were fully vested	618	21,280
Direct transaction costs	—	2,958
Future stock-based compensation:		
Shares subject to re-vesting restrictions	1,146	43,046
Stock options assumed that were unvested	984	35,126
Total	<u>5,709</u>	<u>\$334,370</u>

The fair value of SunPower's class A common stock issued was determined based on the average closing prices for a range of trading days around the announcement date (November 15, 2006) of the transaction. The fair value of stock options assumed was estimated using the Black-Scholes valuation model with the following assumptions: volatility of 90%, expected life ranging from 2.7 years to 6.3 years, and risk-free interest rate of 4.6%.

Of the consideration issued for the acquisition, approximately \$23.7 million in cash and 0.7 million shares, with a total aggregate value of \$118.1 million as of December 30, 2007, are being held in escrow as security for the indemnification obligations of certain former PowerLight shareholders and will be released over a period of five years ending January 10, 2012.

The allocation of the purchase consideration and future stock-based compensation was as follows:

<u>(In thousands)</u>	
Net tangible assets	\$ 13,925
Acquired identifiable intangible assets:	
Purchased technology and patents	29,448
Tradename	15,535
Customer relationships	22,730
Backlog	11,787
In-process research and development	9,575
Future stock-based compensation	78,172
Deferred tax liability	(21,964)
Goodwill	175,162
Total	<u>\$334,370</u>

Subsequent to the date of acquisition, SunPower recorded adjustments to increase the goodwill balance by approximately \$6.6 million. See "Goodwill" below for further discussion.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

Net tangible assets acquired consisted of the following:

(In thousands)

Cash and cash equivalents	\$ 22,049
Restricted cash	4,711
Accounts receivable, net	40,080
Inventories	28,146
Costs and estimated earnings in excess of billings	9,136
Deferred project costs	24,932
Other assets	23,740
Total assets acquired	<u>152,794</u>
Accounts payable	(60,707)
Billings in excess of costs and estimated earnings	(35,887)
Other accrued expenses and liabilities	(42,275)
Total liabilities assumed	<u>(138,869)</u>
Net tangible assets acquired	<u><u>\$ 13,925</u></u>

Acquired Identifiable Intangible Assets:

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

<u>Intangible Assets</u>	<u>Method of Valuation</u>	<u>Discount Rate Used</u>	<u>Royalty Rate Used</u>	<u>Estimated Useful Lives</u>
Purchased technology and patents . . .	Relief from royalty method	25%	3%	Four years
Tradename	Relief from royalty method	25%	1%	Five years
Customer relationships	Income approach	22%	—	Six years
Backlog	Income approach	20%	—	One year

The determination of the fair value and useful life of the tradename was based on SunPower's strategy of continuing to market its systems products and services under the PowerLight brand. In June 2007, SunPower formally changed its branding strategy and consolidated all of its product and service offerings under the SunPower brand name and eliminated the use of the PowerLight tradename. PowerLight's name was changed to SP Systems to capitalize on SunPower's name recognition. Based on the change in branding strategy, SunPower determined that the PowerLight tradename was impaired during fiscal 2007 and wrote off the remaining net book value of \$14.1 million related to the intangible asset.

In-Process Research and Development:

SunPower identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. These in-process research and development projects consisted of two components: design automation tool and tracking systems. In assessing the projects, SunPower considered key characteristics of the technology as well as its future prospects, the rate technology changes in the industry, and the projects' stage of development.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

SunPower allocated \$9.6 million of the purchase price to the in-process research and development projects and wrote off the amount in fiscal 2007.

The value of in-process research and development was determined using the income approach method with a 40% discount rate, which was derived from a weighted-average cost of capital analysis and adjusted to reflect the stage of completion of the projects and the level of risks associated with the projects. The percentage of completion for each project was determined by identifying the research and development expenses invested in the project as a ratio of the total estimated development costs required to bring the project to technical and commercial feasibility. The following table summarizes the status of each project:

<u>Projects</u>	<u>Stage of Completion</u>	<u>Total Costs Incurred</u>	<u>Total Remaining Costs</u>
Design automation tool:			
As of January 10, 2007 (acquisition date)	8%	\$0.2 million	\$2.4 million
As of December 30, 2007	35%	\$0.9 million	\$1.7 million
Tracking systems:			
As of January 10, 2007 (acquisition date)	25%	\$0.2 million	\$0.6 million
As of December 30, 2007	100%	\$0.8 million	\$ —

As of December 30, 2007, SunPower has incurred total costs of approximately \$0.9 million related to the design automation tool project, of which \$0.7 million was incurred after the acquisition. SunPower estimates that an additional investment of \$1.7 million will be required to complete the project. SunPower expects to complete the design automation tool project by June 2009, approximately one and a half years earlier than the original estimate.

SunPower completed the tracking systems project in June 2007 and incurred total project costs of \$0.8 million, of which \$0.6 million was incurred after the acquisition. Both the actual completion date and the total project costs were in line with the original estimates.

Goodwill:

The acquisition enables SunPower to extend its leadership and participation in more diversified applications and markets, develop the next generation of solar products and solutions that accelerate reductions in solar system costs to compete with retail electric rates without incentives, and simplify and improve customer experience. These factors primarily contributed to a purchase price that resulted in goodwill. Goodwill that resulted from the acquisition is not deductible for tax purposes.

Approximately \$175.2 million had been allocated to goodwill at the date of acquisition. During fiscal 2007, SunPower recorded adjustments of \$6.6 million to increase goodwill acquired in connection with the acquisition. These adjustments included (1) a change in the estimated receivable for an existing project as of the acquisition date which was subsequently determined to be unearned and thus, the receivable will not be paid, (2) an additional loss provision on a construction project that was contracted as of the acquisition date and which has subsequently been determined to have a larger loss than originally estimated, and (3) adjustments to the value of certain acquired assets and liabilities.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

Financial Commitment Letter:

In conjunction with the acquisition, Cypress entered into a commitment letter with SunPower during the fourth quarter of fiscal 2006 under which Cypress agreed to lend to SunPower up to \$130.0 million in cash in order to facilitate the financing of the acquisition or working capital requirements. In February 2007, Cypress and SunPower mutually terminated the commitment letter. No borrowings were outstanding at the termination date.

Cypress MicroSystems (“CMS”)

In October 2005, the Company acquired all of the outstanding minority interest of CMS, a majority-owned subsidiary of the Company. CMS, which was renamed to PSoC after the acquisition, develops and markets PSoC products for consumer, industrial, office automation, telecommunication and automotive applications. The historical results of operations of CMS had been included in the Company’s consolidated results of operations for all periods presented. PSoC is a part of the Company’s Consumer and Computation Division.

Immediately prior to the acquisition, the Company owned approximately 93% of CMS’s outstanding capital stock on a fully diluted basis. Pursuant to the terms of the merger agreement, each outstanding vested share of CMS’s capital stock and each outstanding vested option to purchase CMS’s common stock were converted into \$0.65 in cash per share. The Company recorded purchase consideration, including direct transaction costs of \$0.1 million, of \$8.4 million in exchange for vested mature shares of CMS. In addition, the Company recorded compensation expense of approximately \$1.0 million in connection with the cash settlement of vested options and immature shares.

In addition, unvested shares and options were exchanged for a right to receive \$0.65 in cash per share in the future for a total consideration of \$3.1 million, which is being amortized ratably on a straight-line basis over the employment service period. To date, the Company recorded total compensation charges of \$2.4 million.

The allocation of the purchase consideration was as follows:

(In thousands)

Acquired identifiable intangible assets:

Purchased technology	\$3,094
Customer relationships	796
Backlog	326
Goodwill	4,224
Total	<u>\$8,440</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

Acquired Identified Intangible Assets:

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

<u>Intangible Assets</u>	<u>Method of Valuation</u>	<u>Discount Rate Used</u>	<u>Estimated Useful Lives</u>
Purchased technology	Income approach	18%	Two to four years
Customer relationships	Income approach	21%	Four years
Backlog	Cost approach	16%	One year

In-Process Research and Development:

The Company determined that CMS had no projects that qualified as in-process research and development projects as of the acquisition date.

Goodwill:

CMS develops and markets PSoC devices for consumer electronics, handsets, networking equipment, industrial and automotive systems. The acquisition enabled the Company to continue to diversify its product offerings, build PSoC into a supplier of high-performance and cost-effective configurable mixed-signal arrays and expand PSoC's market share. These factors primarily contributed to a purchase price which resulted in goodwill. Goodwill from the acquisition is not deductible for tax purposes.

SMaL Camera Technologies, Inc. ("SMaL")

In February 2005, the Company completed the acquisition of SMaL, a company specializing in the digital imaging solutions for a variety of business and consumer applications. The fair value of assets acquired and liabilities assumed was recorded in the Company's consolidated balance sheet as of February 14, 2005 and the results of operations of SMaL were included in the Company's consolidated results of operations subsequent to February 14, 2005. SMaL is a part of the Company's Memory and Imaging Division.

The Company acquired 100% of the outstanding capital stock of SMaL in exchange for \$42.5 million in cash. In addition, the Company assumed SMaL's outstanding stock options and, in exchange, issued Cypress's stock options with a fair value of \$3.2 million. The fair value was determined using the Black-Scholes model with the following assumptions: volatility of 75%, expected life of 1 to 3.75 years, and risk-free interest rate of 3.14%.

The following table summarizes the total purchase consideration:

(In thousands)

Cash	\$42,500
Fair value of stock options, net of intrinsic value of unvested portion	2,373
Direct transaction costs	245
Total	<u>\$45,118</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

The allocation of the purchase consideration was as follows:

(In thousands)

Net tangible assets	\$ 3,592
Acquired identifiable intangible assets:	
Patents	5,200
Purchased technology	1,400
Customer contracts	800
Non-compete agreement	700
Tradenames and backlog	300
In-process research and development	12,300
Goodwill	20,826
Total	<u>\$45,118</u>

Net tangible assets acquired consisted of the following:

(In thousands)

Cash and cash equivalents	\$ 2,894
Accounts receivable, net	1,210
Inventories	1,398
Other	714
Total assets acquired	<u>6,216</u>
Accounts payable	(982)
Other accrued expenses and liabilities	<u>(1,642)</u>
Total liabilities assumed	<u>(2,624)</u>
Net tangible assets acquired	<u>\$ 3,592</u>

In addition to the purchase consideration, the terms of the acquisition included contingent consideration of up to approximately \$22.5 million in cash through fiscal 2006. Of this amount, \$1.7 million was based on employment and the achievement of certain individual performance milestones and \$20.8 million was based on the achievement of certain sales milestones and employment. As of December 31, 2006, all of the \$20.8 million contingent compensation based on the achievement of sales milestones and employment had been forfeited as the sales targets were not met. In addition, contingent compensation of \$0.4 million based on employment and the achievement of certain individual performance milestones was forfeited.

The Company recorded total charges of \$1.3 million based on employment and the achievement of individual performance milestones. Of this amount, \$0.7 million was recorded in fiscal 2006 and \$0.6 million was recorded in fiscal 2005. As of December 31, 2006, the Company had fulfilled its obligations related to SMaL's contingent consideration.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

Acquired Identifiable Intangible Assets:

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

<u>Intangible Assets</u>	<u>Method of Valuation</u>	<u>Discount Rate Used</u>	<u>Royalty Rate Used</u>	<u>Estimated Useful Lives</u>
Patents	Relief from royalty method	38%	5%	Six years
Purchased technology	Income approach	25%-30%	—	Four years
Customer contracts	Cost approach	28%	—	Six years
Non-compete agreements	Income approach	30%	—	Two years

In-Process Research and Development:

The Company identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. These in-process research and development projects included the development of first generation automotive cameras and mobile phone sensors. In assessing the projects, the Company considered key characteristics of the technology as well as its future prospects, the rate technology changes in the industry, product life cycles, and the projects' stage of development. The Company allocated \$12.3 million of the purchase price to the in-process research and development projects and wrote off the amount in the first quarter of fiscal 2005.

The value of in-process research and development was determined using the income approach method with discount rates ranging from 35% to 45%, which were derived from a weighted-average cost of capital analysis and adjusted to reflect the stage of completion of the projects and the level of risks associated with the projects. The percentage of completion for each project was determined by identifying the research and development expenses invested in the project as a ratio of the total estimated development costs required to bring the project to technical and commercial feasibility. The following table summarizes certain information related to each project:

<u>Projects</u>	<u>Stage of Completion</u>	<u>Total Costs Incurred</u>	<u>Total Remaining Costs</u>
First generation automotive cameras:			
As of February 15, 2005 (acquisition date)	58%	\$4.2 million	\$3.1 million
As of December 31, 2006	100%	\$7.3 million	\$ —
Mobile phone sensors:			
As of February 15, 2005 (acquisition date)	29%	\$2.4 million	\$6.0 million
As of December 31, 2006	100%	\$8.4 million	\$ —

The Company completed both projects in March 2006 and incurred total project costs of \$15.7 million, of which \$9.1 million was incurred after the acquisition. Both the actual completion date and the total project costs were in line with the original estimates.

Goodwill:

The acquisition accelerated the Company's entry into the high-volume complimentary metal oxide semiconductor image sensor business and complemented the Company's existing new mobile phone

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3. BUSINESS COMBINATIONS (Continued)

products in the Memory and Imaging Division. These factors primarily contributed to a purchase price which resulted in goodwill. Goodwill from the acquisition is not deductible for tax purposes.

Pro Forma Financial Information (Unaudited)

The following unaudited pro forma financial information presents the combined results of operations of the Company and PowerLight as if the acquisitions had occurred as of the beginning of fiscal 2007 and 2006:

	Year Ended	
	December 30, 2007	December 31, 2006
	(In thousands, except per-share amounts)	
Revenues	\$1,598,701	\$1,297,158
Net income (loss)	\$ 392,824	\$ (24,166)
Basic net income (loss) per share	\$ 2.53	\$ (0.17)
Diluted net income (loss) per share	\$ 2.29	\$ (0.17)

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

NOTE 4. DIVESTITURES

As part of the Company's efforts to transform the organization from a traditional, broad-line semiconductor company to a leading supplier of programmable system solutions, the Company has implemented several initiatives that included the divestitures of product families and businesses that did not align with the Company's long-term business plan. The following table summarizes the divestitures completed in fiscal 2007:

Product Families / Businesses	Reportable Segments	Buyers	Total Consideration
A portion of the image sensors product families	Memory and Imaging Division	Sensata Technologies	\$11.0 million in cash
Silicon Valley Technology Center ("SVTC")	Other	Semiconductor Technology Services	\$53.0 million in cash
A portion of the network search engine ("NSE") product families	Data Communications Division	NetLogic Microsystems	\$14.4 million in cash

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. DIVESTITURES (Continued)

In connection with the divestitures, the Company recorded total gains of \$18.0 million. The following table summarizes the components of the gains:

	<u>Image Sensors</u>	<u>SVTC</u>	<u>NSE</u>	<u>Total</u>
		(In thousands)		
Cash proceeds	\$11,000	\$ 52,950	\$14,448	\$ 78,398
Assets sold:				
Accounts receivable	—	(3,927)	—	(3,927)
Inventories	(1,438)	—	(2,375)	(3,813)
Property, plant and equipment	—	(37,823)	—	(37,823)
Intangible assets	(4,581)	—	—	(4,581)
Other	(515)	—	—	(515)
Allocated goodwill	(2,306)	—	(4,872)	(7,178)
Employee-related costs	(1,093)	—	—	(1,093)
Transaction and other costs	(845)	(640)	(25)	(1,510)
Gain on divestitures	<u>\$ 222</u>	<u>\$ 10,560</u>	<u>\$ 7,176</u>	<u>\$ 17,958</u>

In accordance with SFAS No. 142, the Company included a portion of goodwill in the carrying amount of the image sensor and NSE product families in determining the gain on disposal. The amount was based on the relative fair values of the product families that were disposed of and the remaining portion of the reporting units that are retained by the Company. SVTC was part of a reporting unit that does not have any goodwill balance.

In connection with the divestiture of the image sensor product families, approximately 25 employees were transferred to Sensata Technologies. In connection with the divestiture of SVTC, approximately 85 employees were transferred to Semiconductor Technology Services. No employees were transferred or terminated in connection with the divestiture of the NSE product families.

The following table summarizes the divestitures completed in fiscal 2006:

<u>Product Families</u>	<u>Reportable Segments</u>	<u>Buyers</u>	<u>Total Consideration</u>
Personal computer ("PC") clock product families	Consumer and Computation Division	Spectra Linear	\$14.4 million in cash and stock
A portion of the NSE product families	Data Communications Division	NetLogic Microsystems	\$58.5 million in stock

In connection with the divestiture of the PC clock product families, Spectra Linear paid the Company \$8.0 million in cash and issued to the Company 7.4 million shares of its series B preferred stock, which were equal to approximately 15% of Spectra Linear's fully diluted shares at the closing date of the transaction. The preferred stock was valued at \$6.4 million, based on the latest round of financing completed by Spectra Linear in fiscal 2006.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4. DIVESTITURES (Continued)

In connection with the divestiture of the NSE product families, NetLogic Microsystems issued to the Company approximately 1.7 million shares of its common stock. The common stock was valued at \$58.5 million, which was determined based on the stock price of NetLogic Microsystems on the closing date of the transaction.

In connection with the divestitures, the Company recorded total gains of \$14.7 million. The following table summarizes the components of the gains:

	<u>PC Clock</u>	<u>NSE</u>	<u>Total</u>
		(In thousands)	
Cash proceeds	\$ 8,000	\$ —	\$ 8,000
Value of capital stock received	6,406	58,531	64,937
Assets sold:			
Inventories	(1,664)	(2,716)	(4,380)
Intangible assets	—	(1,037)	(1,037)
Other	(422)	(268)	(690)
Allocated goodwill	(2,840)	(44,070)	(46,910)
Employee-related costs	(233)	(2,799)	(3,032)
Transaction and other costs	(515)	(1,643)	(2,518)
Gain on divestitures	<u>\$ 8,732</u>	<u>\$ 5,998</u>	<u>\$ 14,730</u>

In accordance with SFAS No. 142, the Company included a portion of goodwill in the carrying amount of the PC clock and NSE product families in determining the gain on disposal. The amount was based on the relative fair values of the product families that were disposed of and the remaining portion of the reporting units that are retained by the Company.

In connection with the divestiture of the NSE product families, approximately 54 employees were either terminated by the Company or transferred to NetLogic Microsystems. In connection with the divestiture of the PC clock product families, approximately ten employees were either terminated or transferred to Spectra Linear.

NOTE 5. GOODWILL AND INTANGIBLE ASSETS

Goodwill

In accordance with SFAS No. 142, the Company performed its annual goodwill impairment assessment in the fourth quarters of fiscal 2007, 2006 and 2005 and determined that no impairment existed.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. GOODWILL AND INTANGIBLE ASSETS (Continued)

The following table presents the changes in the carrying amount of goodwill under the reportable business segments:

	Consumer and Computation Division	Data Communications Division	Memory and Imaging Division	SunPower	Total
	(In thousands)				
Balance at January 1, 2006	\$132,580	\$187,878	\$83,919	\$ 2,883	\$407,260
Adjustments	(2,840)	(44,070)	—	—	(46,910)
Balance at December 31, 2006	129,740	143,808	83,919	2,883	360,350
Adjustments	—	(5,372)	(2,306)	181,801	174,123
Balance at December 30, 2007	<u>\$129,740</u>	<u>\$138,436</u>	<u>\$81,613</u>	<u>\$184,684</u>	<u>\$534,473</u>

For fiscal 2007, goodwill adjustments included the following:

- an addition of \$181.7 million related to the acquisition of PowerLight by SunPower (see Note 3);
- write-offs of \$7.2 million related to two divestitures (see Note 4); and
- a reduction of \$0.5 million as a result of the escrow closing related to a previous acquisition.

For fiscal 2006, goodwill adjustments included write-offs of \$46.9 million related to two divestitures (see Note 4).

Intangible Assets

The following tables present details of the Company's total intangible assets:

<u>As of December 30, 2007</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
		(In thousands)	
Purchase technology	\$241,947	\$(209,107)	\$32,840
Patents, tradenames, customer relationships and backlog	58,851	(35,128)	23,723
Other	6,066	(5,263)	803
Total acquisition-related intangible assets	306,864	(249,498)	57,366
Non-acquisition related intangible assets	4,011	(2,519)	1,492
Total intangible assets	<u>\$310,875</u>	<u>\$(252,017)</u>	<u>\$58,858</u>

<u>As of December 31, 2006</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
		(In thousands)	
Purchased technology	\$216,699	\$(197,908)	\$18,791
Patents, tradenames, customer relationships and backlog	30,534	(17,490)	13,044
Other	6,766	(5,650)	1,116
Total acquisition-related intangible assets	253,999	(221,048)	32,951
Non-acquisition related intangible assets	3,771	(1,227)	2,544
Total intangible assets	<u>\$257,770</u>	<u>\$(222,275)</u>	<u>\$35,495</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 5. GOODWILL AND INTANGIBLE ASSETS (Continued)

As of December 30, 2007, the estimated future amortization expense of intangible assets was as follows:

	<u>Cypress</u>	<u>SunPower</u>	<u>Consolidated</u>
		(In thousands)	
2008.....	\$5,527	\$15,076	\$20,603
2009.....	859	14,740	15,599
2010.....	350	13,228	13,578
2011.....	315	4,008	4,323
2012 and thereafter.....	861	3,894	4,755
Total future amortization expense	<u>\$7,912</u>	<u>\$50,946</u>	<u>\$58,858</u>

NOTE 6. INVESTMENTS

Available-For-Sale Securities

The following tables summarize the Company's available-for-sale securities:

<u>As of December 30, 2007</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(In thousands)		
Cash equivalents:				
Commercial paper	\$ 75,766	\$ 1	\$ (1)	\$ 75,766
Money market funds	868,319	—	—	868,319
Total cash equivalents	<u>944,085</u>	<u>1</u>	<u>(1)</u>	<u>944,085</u>
Short-term investments:				
Commercial paper	124,133	17	(1)	124,149
Federal agency notes	48,874	233	—	49,107
Corporate notes/bonds	114,824	234	(120)	114,938
Auction rate securities	27,520	—	—	27,520
Asset-backed securities	10,527	113	—	10,640
Marketable equity securities	1,053	5,341	—	6,394
Total short-term investments	<u>326,931</u>	<u>5,938</u>	<u>(121)</u>	<u>332,748</u>
Long-term investments:				
Auction rate securities	67,797	3	—	67,800
Commercial paper	1,065	—	—	1,065
Marketable equity securities	3,142	100	(411)	2,831
Total long-term investments	<u>72,004</u>	<u>103</u>	<u>(411)</u>	<u>71,696</u>
Total available-for-sale securities	<u>\$1,343,020</u>	<u>\$6,042</u>	<u>\$(533)</u>	<u>\$1,348,529</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS (Continued)

<u>As of December 31, 2006</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
		(In thousands)		
Cash equivalents:				
Commercial paper	\$224,042	\$ 3	\$ (63)	\$223,982
Money market funds	171,429	—	—	171,429
Total cash equivalents	<u>395,471</u>	<u>3</u>	<u>(63)</u>	<u>395,411</u>
Short-term investments:				
Commercial paper	45,466	—	(13)	45,453
Federal agency notes	39,837	27	(120)	39,744
Corporate notes/bonds	51,698	37	(137)	51,598
Auction rate securities	24,666	—	—	24,666
Asset-backed securities	1,573	18	—	1,591
Marketable equity securities	3,586	—	—	3,586
Total short-term investments	<u>166,826</u>	<u>82</u>	<u>(270)</u>	<u>166,638</u>
Long-term marketable equity securities	<u>3,744</u>	<u>1,180</u>	<u>(471)</u>	<u>4,453</u>
Total available-for-sale securities	<u>\$566,041</u>	<u>\$1,265</u>	<u>\$(804)</u>	<u>\$566,502</u>

Auction rate securities are investments with contractual maturities generally between 20 to 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations whose interest rates are reset every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par.

As of December 30, 2007, the carrying value of the Company's auction rate securities totaled \$95.3 million, of which \$27.5 million was classified as short-term investments and \$67.8 million was classified as long-term investments. The auction rate securities held by the Company are primarily backed by student loans and are over-collateralized, insured and guaranteed by the United States Federal Department of Education. In addition, all auction rate securities held by the Company are rated by the major independent rating agencies as either AAA or Aaa.

Most of these auction rate securities were scheduled to reset subsequent to December 30, 2007. As of February 28, 2008, \$44.9 million of the Company's auction rate securities have failed auctions, and the Company expects that the remaining auction rate securities will fail, due to sell orders exceeding buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. In the event the Company needs to access these funds associated with failed auctions, they are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. As a result, the Company has classified \$67.8 million of the auction rate securities as long-term investments as of December 30, 2007. This amount represents the balance of the auction rate securities as of December 30, 2007 that had not been sold by the Company subsequent to the end of fiscal 2007.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS (Continued)

The Company determined that no other-than-temporary impairment losses related to the auction rate securities existed as of December 30, 2007 as all holdings had successful auctions. However, if the issuer of the auction rate securities is unable to successfully close future auctions or does not redeem the auction rate securities, or the United States government fails to support its guaranty of the obligations, the Company may be required to adjust the carrying value of the auction rate securities and record an other-than-temporary impairment charge.

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

	Less Than Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of December 30, 2007						
			(In thousands)			
Commercial paper	\$29,983	\$ (2)	\$—	\$—	\$29,983	\$ (2)
Corporate notes/bonds	51,288	(120)	—	—	51,288	(120)
Marketable equity securities	1,544	(411)	—	—	1,544	(411)
Total	\$82,815	\$(533)	\$—	\$—	\$82,815	\$(533)

	Less Than Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
As of December 31, 2006						
			(In thousands)			
Commercial paper	\$268,338	\$ (76)	\$ —	\$ —	\$268,338	\$ (76)
Federal agency notes	15,700	(52)	8,769	(68)	24,469	(120)
Corporate notes/bonds	22,635	(39)	16,851	(98)	39,486	(137)
Marketable equity securities	1,318	(471)	—	—	1,318	(471)
Total	\$307,991	\$(638)	\$25,620	\$(166)	\$333,611	\$(804)

Currently, the available-for-sale debt investments that the Company holds are all high investment grade. The unrealized losses on the Company's investments were due primarily to changes in interest rates and market and credit conditions of the underlying securities. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company did not consider these investments to be other-than-temporarily impaired as of December 30, 2007.

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS (Continued)

As of December 30, 2007, contractual maturities of the Company's available-for-sale non-equity investments were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	\$1,189,338	\$1,189,476
Maturing in one to three years	42,676	42,900
Maturing in more than three years	106,811	106,928
Total	<u>\$1,338,825</u>	<u>\$1,339,304</u>

Realized losses from sales of non-equity investments were \$0.3 million in fiscal 2005. There were no realized gains or losses from sales of non-equity investments in fiscal 2007 and 2006. Realized gains from sales of equity investments were \$0.9 million and \$10.0 million in fiscal 2007 and 2006, respectively. The Company did not sell any equity investments in fiscal 2005 (see "Investments in Equity Securities" below).

Proceeds from sales and maturities of investments were \$294.1 million, \$152.7 million and \$157.2 million in fiscal 2007, 2006 and 2005, respectively.

Investments in Equity Securities

The following table summarizes the Company's investments in equity securities recorded in the Consolidated Balance Sheets:

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Short-term:		
Available-for-sale equity securities	\$ 6,394	\$ 3,586
Long-term:		
Available-for-sale equity securities	2,831	4,453
Non-marketable equity securities	12,138	14,968
Total long-term investments	<u>14,969</u>	<u>19,421</u>
Total equity investments	<u>\$21,363</u>	<u>\$23,007</u>

Sale of Equity Securities:

During fiscal 2007, the Company sold its equity investments in two publicly traded companies for \$4.5 million and recognized total gains of \$0.9 million.

During fiscal 2006, the Company completed the sale of its equity investments in two publicly traded companies for \$64.8 million and recognized total gains of \$7.1 million. In addition, one of the privately held companies in which the Company held an equity investment was acquired by a public company, resulting in the Company receiving shares of the public company. As a result of the transaction, the Company recognized a gain of \$2.9 million during fiscal 2006.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6. INVESTMENTS (Continued)

Impairment of Investments

The Company reviews its investments periodically for impairment and recognizes an impairment charge when the carrying value of an investment exceeds its fair value and the decline in value is considered other-than-temporary. The Company recorded impairment charges of \$1.9 million, \$5.3 million and \$0.8 million in fiscal 2007, 2006 and 2005, respectively, as the decline in value of certain investments was determined to be other-than-temporary.

NOTE 7. STOCK-BASED COMPENSATION

Effective January 2, 2006, the Company (including both Cypress and SunPower) adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), which requires the Company to measure the stock-based compensation costs of share-based compensation arrangements based on the grant-date fair value and recognize the costs in the financial statements over the requisite employee service period. As permitted by SFAS No. 123(R), the Company elected to use the modified prospective application transition method and has not restated its financial results for fiscal 2005.

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

	Year Ended					
	December 30, 2007			December 31, 2006		
	Cypress	SunPower	Consolidated	Cypress	SunPower	Consolidated
	(In thousands)					
Cost of revenues	\$13,123	\$12,400	\$ 25,523	\$ 8,094	\$ 846	\$ 8,940
Research and development	15,870	1,817	17,687	16,719	1,197	17,916
Selling, general and administrative	32,399	36,995	69,394	17,775	2,821	20,596
Total stock-based compensation expense						
before income taxes	61,392	51,212	112,604	42,588	4,864	47,452
Tax effect on stock-based compensation						
expense	—	—	—	—	—	—
Total stock-based compensation expense						
after income taxes	<u>\$61,392</u>	<u>\$51,212</u>	<u>\$112,604</u>	<u>\$42,588</u>	<u>\$4,864</u>	<u>\$47,452</u>

As stock-based compensation expense recognized in the Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Consolidated net cash proceeds from the issuance of common shares under the Company's employee stock plans were \$218.9 million for the year ended December 30, 2007 and \$80.6 million for the year ended December 31, 2006. No income tax benefit was realized from stock option exercises for the years ended December 30, 2007 and December 31, 2006. As required, the Company presents excess tax benefits from the exercise of stock options, if any, as financing cash flows rather than operating cash flows.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

As of December 30, 2007 and December 31, 2006, stock-based compensation capitalized in inventories totaled \$5.0 million and \$2.9 million, respectively.

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

	Year Ended					
	December 30, 2007			December 31, 2006		
	Cypress	SunPower	Consolidated	Cypress	SunPower	Consolidated
	(In thousands)					
Stock options	\$31,573	\$17,453	\$ 49,026	\$36,697	\$4,187	\$40,884
Restricted stock and restricted stock units	25,700	13,121	38,821	936	677	1,613
Shares released from re-vesting restrictions(1)	—	20,638	20,638	—	—	—
Employee stock purchase plan ("ESPP")	4,119	—	4,119	4,955	—	4,955
Total stock-based compensation expense	<u>\$61,392</u>	<u>\$51,212</u>	<u>\$112,604</u>	<u>\$42,588</u>	<u>\$4,864</u>	<u>\$47,452</u>

- (1) In connection with the acquisition of PowerLight (see Note 3), 1.1 million shares of SunPower's class A common stock issued to employees of PowerLight, which were valued at \$43.0 million at the date of acquisition, are subject to certain transfer restrictions and a repurchase option by SunPower. As the re-vesting restrictions of these shares lapse over a two-year period, stock-based compensation related to the shares is being amortized over a two-year period.

The following table summarizes the unrecognized stock-based compensation balance by type of awards:

	As of December 30, 2007			Weighted-Average
	Cypress	SunPower	Consolidated	Amortization
	(In thousands)			Period
				(In years)
Stock options	\$ 50,954	\$ 23,186	\$ 74,140	1.52
Restricted stock and restricted stock units	51,946	76,132	128,078	3.64
Shares subject to re-vesting restrictions	—	21,338	21,338	1.00
ESPP	464	—	464	0.49
Total unrecognized stock-based compensation				
balance	\$103,364	\$120,656	\$224,020	

Prior to the Adoption of SFAS No. 123(R)

Prior to the adoption of SFAS No. 123(R), the Company applied SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which allowed companies to apply the accounting rules under Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The following table illustrates the effect on net loss and net loss per share as if the

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation for fiscal 2005:

	Year Ended January 1, 2006
	(In thousands, except per-share amounts)
Net loss—as reported	\$ (92,153)
Add: Total stock-based compensation expense reported in net loss, net of related tax effects	5,581
Deduct: Total stock-based compensation expense determined under fair value based method, net of tax effects	(55,056)
Net loss—pro forma	<u>\$ (141,628)</u>
Net loss per share:	
Basic and diluted—as reported	\$ (0.69)
Basic and diluted—pro forma	\$ (1.06)

Valuation Assumptions

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

Cypress:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
Stock Option Plans:			
Expected life	2.1-8.4 years	3.0-8.1 years	2.0-7.0 years
Volatility	32.1%-53.2%	37.8%-47.0%	47.3%-84.5%
Risk-free interest rate	3.2%-5.1%	4.3%-5.0%	3.6%-4.4%
Dividend yield	0.0%	0.0%	0.0%
ESPP:			
Expected life	0.5-1.5 years	0.5-1.5 years	0.5-1.5 years
Volatility	31.5%-35.6%	37.8%-53.4%	46.8%-105.0%
Risk-free interest rate	4.6%-5.0%	2.3%-5.2%	0.7%-3.5%
Dividend yield	0.0%	0.0%	0.0%

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

Volatility: Prior to January 2, 2006, Cypress' expected volatility was based on the historical volatility. As a result of adopting SFAS No. 123(R), Cypress determined that implied volatility of publicly traded call options and quotes from option traders is expected to be more reflective of market conditions and, therefore, can reasonably be a better indicator of expected volatility than historical volatility. Therefore, Cypress revised the volatility factor to be based on a blend of historical volatility and implied volatility upon adoption of SFAS No. 123(R).

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

Dividend yield: Since Cypress does not pay and does not expect to pay dividends, the expected dividend yield is zero.

SunPower:

<u>Stock Option Plans:</u>	<u>Year Ended</u>		
	<u>December 30, 2007</u>	<u>December 31, 2006</u>	<u>January 1, 2006</u>
Expected life	6.5 years	6.5 years	4.0 years
Volatility	90.0%	92.0%	92.0%
Risk-free interest rate	4.58%-4.68%	4.80%-5.11%	3.63%-4.36%
Dividend yield	0.0%	0.0%	0.0%

Expected life: For fiscal 2005, SunPower estimated the expected life based on an assumed exercise of vested tranches at the earlier of one year after their vesting date or one year after an assumed public offering. Upon the adoption of SFAS No. 123(R) beginning in fiscal 2006, SunPower elected to use the simplified method under the provisions of Staff Accounting Bulletin No. 107 for estimating expected life, instead of its historical exercise data. SunPower elected not to base the expected life on historical data because of the significant difference in its status before and after the effective date of SFAS No. 123(R). SunPower was a privately held company until its IPO in November 2005, and the only available liquidation event for option holders was Cypress's buyout of minority interests in November 2004. At all other times, optionees could not cash out on their vested options. From the time of SunPower's IPO in November 2005 through May 2006 when lock-up restrictions expired, a majority of the optionees were unable to exercise vested options.

Volatility: Because of the limited history of its stock price returns, SunPower does not believe that its historical volatility would be representative of the expected volatility for its equity awards. Prior to the fourth quarter of fiscal 2005, volatility was based on Cypress's historical volatility rates. Beginning in the fourth quarter of fiscal 2005, SunPower has chosen to use the historical volatility rates for a publicly traded, United States-based direct competitor as the basis for calculating the volatility for its granted options.

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

Dividend yield: Since SunPower does not pay and does not expect to pay dividends, the expected dividend yield is zero.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

Equity Incentive Program Related to Cypress' Common Stock

Cypress has the following two stock option plans:

1999 Stock Option Plan ("1999 Plan"):

In fiscal 1999, Cypress adopted the 1999 Plan. Under the terms of the 1999 Plan, which is a non-shareholder approved plan, options may be granted to qualified employees, including those of acquired companies and consultants of Cypress or its subsidiaries, but options may not be granted to executive officers or directors. Options become exercisable over a vesting period as determined by the Board of Directors, generally over 60 months ratably, and expire over terms not exceeding ten years from the date of grant. As of December 30, 2007, approximately 2.4 million shares were available for grant under the 1999 Plan. The 1999 Plan will expire in March 2009.

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

In fiscal 1994, the Company adopted, and in fiscal 2004 amended, the 1994 Stock Option Plan, which is a shareholder-approved plan. Under the terms of the 1994 Amended Plan, options and restricted stock may be granted to qualified employees, consultants, officers and directors of Cypress or its subsidiaries. In May 2007, Cypress's shareholders approved an amendment to the 1994 Amended Plan, which:

- reduced the number of shares available for issuance by approximately 1.7 million;
- replaced the 2,000,000 share limitation on restricted stock and restricted stock unit awards with a provision removing 1.88 shares from the share reserve for every share of restricted stock or restricted stock units issued;
- added stock appreciation rights, with a maximum 8-year term, and a minimum exercise price of 100% of the fair market value of the underlying shares on the grant date as a permissible type of award;
- reduced the maximum term of all new awards from 10 to 8 years;
- clarify that shares used to satisfy the minimum statutory withholding obligations or to exercise a stock appreciation right are not available for reissuance; and
- increased the minimum exercise price of nonstatutory stock options from 85% to 100% of the fair market value of the underlying shares on the grant date.

As of December 30, 2007, approximately 4.7 million shares of stock options or 2.5 million shares of restricted stock units were available for grant under the 1994 Amended Plan. The 1994 Amended Plan will expire in April 2014.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

The following table summarizes Cypress' stock option activities:

	Year Ended					
	December 30, 2007		December 31, 2006		January 1, 2006	
	Shares	Weighted-Average Exercise Price per Share	Shares	Weighted-Average Exercise Price per Share	Shares	Weighted-Average Exercise Price per Share
	(In thousands, except per-share amounts)					
Options outstanding, beginning of year	32,152	\$15.50	39,615	\$14.68	43,095	\$14.22
Granted	2,557	\$25.29	3,939	\$16.33	8,686	\$14.23
Exercised	(12,962)	\$15.15	(6,562)	\$ 9.74	(5,245)	\$ 7.74
Forfeited or expired	(2,085)	\$17.60	(4,840)	\$17.19	(6,921)	\$16.06
Options outstanding, end of year	<u>19,662</u>	<u>\$16.80</u>	<u>32,152</u>	<u>\$15.50</u>	<u>39,615</u>	<u>\$14.68</u>
Options exercisable, end of year	10,570	\$15.78	19,678	\$16.00	23,642	\$15.33

The weighted-average grant-date fair value was \$8.90 per share for options granted during fiscal 2007, \$7.38 per share for options granted during fiscal 2006, and \$8.27 per share for options granted during fiscal 2005.

The total intrinsic value of options exercised was \$156.8 million for fiscal 2007, \$45.7 million for fiscal 2006, and \$31.0 million for fiscal 2005.

Total fair value of options vested was \$32.2 million for fiscal 2007, \$35.6 million for fiscal 2006, and \$55.6 million for fiscal 2005.

Information regarding stock options outstanding as of December 30, 2007 was as follows:

Range of Exercise Price	Options Outstanding				Options Exercisable			
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
	(In thousands)	(In years)		(In thousands)	(In thousands)	(In years)		(In thousands)
\$0.84-\$7.56	2,011	4.78	\$ 6.63	\$ 60,683	1,786	4.88	\$ 6.63	\$ 53,883
\$7.68-\$11.99	2,112	5.12	\$10.13	56,318	1,571	4.65	\$10.01	42,157
\$12.00-\$14.54	1,835	7.53	\$13.84	42,146	564	6.94	\$13.65	13,115
\$14.55-\$14.55	2,098	7.02	\$14.55	46,676	799	7.16	\$14.55	17,777
\$14.58-\$16.43	2,054	7.91	\$15.76	43,213	531	7.37	\$15.67	11,242
\$16.52-\$17.08	1,972	4.86	\$16.80	39,417	1,546	3.87	\$16.81	30,906
\$17.11-\$19.60	2,529	6.96	\$19.01	45,044	894	6.13	\$19.16	15,816
\$19.74-\$21.59	2,035	5.18	\$21.21	31,722	1,276	3.64	\$21.32	19,765
\$21.74-\$26.18	2,008	5.33	\$24.10	25,493	1,320	3.48	\$23.46	17,612
\$27.59-\$54.19	1,008	7.73	\$34.24	3,315	283	2.79	\$36.51	322
	<u>19,662</u>	6.18	\$16.80	<u>\$394,027</u>	<u>10,570</u>	4.78	\$15.78	<u>\$222,595</u>

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on Cypress' closing stock price of \$36.80 at the end of the fiscal 2007, which would have been

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable was 10.5 million shares as of December 30, 2007.

As of December 30, 2007, stock options vested and expected to vest totaled approximately 18.3 million shares, with a weighted-average remaining contractual life of 6.04 years and a weighted-average exercise price of \$16.69 per share. The aggregate intrinsic value was approximately \$369.3 million.

The following table summarizes Cypress' non-vested restricted stock unit activities:

	Year Ended			
	December 30, 2007		December 31, 2006	
	Shares	Weighted-Average Grant Date Fair Value per Share	Shares	Weighted-Average Grant Date Fair Value per Share
	(In thousands, except per-share amounts)			
Non-vested, beginning of year	1,007	\$16.23	—	\$ —
Granted	6,156	\$23.45	1,036	\$16.22
Vested	(222)	\$27.62	—	\$ —
Forfeited	(189)	\$18.26	(29)	\$15.90
Non-vested, end of year	<u>6,752</u>	<u>\$22.38</u>	<u>1,007</u>	<u>\$16.23</u>

Cypress began granting restricted stock units in fiscal 2006.

During fiscal 2007, Cypress granted approximately 4.7 million performance-based restricted stock units under the 1994 Amended Plan. The awards were issued to certain executive officers and senior-level employees of Cypress and are earned over a five-year period only upon the achievement of performance-based milestones. The performance-based milestones for the first year included the achievement of certain performance results of Cypress's common stock appreciation target against the Philadelphia Semiconductor Sector Index ("SOXX"), semiconductor operating income milestones and semiconductor operating income performance goals versus a pre-determined peer group as established by the Compensation Committee of the Board of Directors.

The fair value of the first-year restricted stock units with market conditions was estimated at grant date using a Monte Carlo valuation methodology with the following weighted-average assumptions: simulation time frame of 0.64 years; volatility of Cypress's common stock of 30.7%; volatility of the SOXX of 19.4%; correlation coefficient of 0.52; and risk-free interest rate of 4.9%. The fair value of the performance-related component of the restricted stock units was equivalent to the grant-date fair value of Cypress's common stock. During fiscal 2007, approximately 0.1 million performance-based restricted stock units were forfeited.

ESPP:

Cypress's ESPP allows eligible employees to purchase shares of Cypress' common stock through payroll deductions. The ESPP contains consecutive 18-month offering periods composed of three six-month exercise periods. The shares can be purchased at the lower of 85% of the fair market value of the common stock at the date of commencement of the offering period or at the last day of each

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

six-month exercise period. Purchases are limited to 10% of an employee's eligible compensation, subject to a maximum annual employee contribution limit of \$25,000. During fiscal 2007, 2006 and 2005, Cypress issued 1.1 million, 1.2 million and 2.9 million shares with weighted-average prices of \$12.88, \$11.08 and \$7.52 per share and grant-date fair value of \$5.07, \$5.27 and \$5.64 per share, respectively. As of December 30, 2007, approximately 1.2 million shares were available for future issuance under the ESPP.

Equity Incentive Program Related to SunPower's Common Stock

The Amended and Restated 2005 Plan ("2005 Plan") was adopted by SunPower's board of directors in August 2005, and was approved by stockholders in November 2005. In addition, SunPower assumed the PowerLight Corporation Common Stock Option and Common Stock Purchase Plan ("PowerLight Plan") as a result of the PowerLight acquisition in fiscal 2007. Under both the 2005 Plan and the PowerLight Plan, SunPower may issue stock options, stock appreciation rights, restricted shares and other equity rights to directors, employees and consultants. As of December 30, 2007, approximately 0.3 million shares were available for grant under the 2005 Plan. No new awards are being granted under the PowerLight Plan.

Incentive stock options may be granted at no less than the fair value of the common stock on the date of grant. Nonqualified stock options and stock purchase rights may be granted at no less than 85% of the fair value of the common stock at the date of grant. The options and rights become exercisable when and as determined by SunPower's board of directors, although these terms generally do not exceed ten years for stock options. The options generally vest over five years with a one-year cliff and monthly vesting thereafter. Under the PowerLight Plan, the options generally vest over five years with yearly cliff vesting.

The following table summarizes SunPower's stock option activities:

	Year Ended					
	December 30, 2007		December 31, 2006		January 1, 2006	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
	(In thousands, except per-share amounts)					
Options outstanding, beginning of year	4,980	\$ 3.97	6,572	\$ 3.41	4,285	\$2.30
Exchanged/assumed in PowerLight acquisition . .	1,602	\$ 5.54	—	\$ —	—	\$ —
Options granted	18	\$56.20	44	\$39.05	2,581	\$4.98
Options exercised	(2,817)	\$ 3.01	(1,529)	\$ 2.54	(217)	\$0.82
Options forfeited or expired	(82)	\$13.36	(107)	\$ 4.14	(77)	\$1.91
Options outstanding, end of year	<u>3,701</u>	\$ 5.44	<u>4,980</u>	\$ 3.97	<u>6,572</u>	\$3.41
Options exercisable, end of year	1,247	\$ 3.76	1,839	\$ 3.16	1,781	\$2.30

The weighted-average grant-date fair value was \$44.09 per share for options granted during fiscal 2007, \$31.02 per share for options granted during fiscal 2006, and \$2.96 per share for options granted during fiscal 2005.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7. STOCK-BASED COMPENSATION (Continued)

The total intrinsic value of options exercised was \$168.4 million for fiscal 2007, \$47.7 million for fiscal 2006, and \$1.5 million for fiscal 2005.

Total fair value of options vested was \$7.2 million for fiscal 2007, \$3.8 million for fiscal 2006, and \$4.7 million for fiscal 2005.

Information regarding SunPower's outstanding stock options as of December 30, 2007 was as follows:

Range of Exercise Price	Options Outstanding				Options Exercisable			
	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price per Share	Aggregate Intrinsic Value
	(In thousands)	(In years)		(In thousands)	(In thousands)	(In years)		(In thousands)
\$0.04-\$0.75	649	4.06	\$ 0.30	\$ 84,845	256	4.95	\$ 0.50	\$ 33,445
\$0.88-\$2.66	247	3.38	\$ 2.08	65,325	58	6.71	\$ 2.00	7,478
\$3.30-\$4.95	2,093	6.85	\$ 3.32	267,301	821	6.86	\$ 3.31	104,859
\$7.00-\$16.20	359	7.66	\$ 8.43	43,980	79	7.67	\$ 8.59	9,710
\$17.00-\$56.20	353	8.55	\$26.71	36,905	33	8.45	\$31.79	3,256
	<u>3,701</u>	<u>6.12</u>	<u>\$ 5.44</u>	<u>\$498,356</u>	<u>1,247</u>	<u>6.53</u>	<u>\$ 3.76</u>	<u>\$158,748</u>

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on SunPower's closing stock price of \$131.05 at the end of fiscal 2007, which would have been received by the option holders had all option holders exercised their options as of that date. All exercisable options were in-the-money as of December 30, 2007.

As of December 30, 2007, stock options vested and expected to vest totaled approximately 3.6 million shares, with a weighted-average remaining contractual life of 6.6 years and a weighted-average exercise price of \$5.40 per share. The aggregate intrinsic value was approximately \$447.9 million.

The following table summarizes SunPower's non-vested restricted stock activities:

	Year Ended					
	December 30, 2007		December 31, 2006		January 1, 2006	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
	(In thousands, except per-share amounts)					
Non-vested, beginning of year	229	\$35.40	15	\$30.04	—	\$ —
Granted	1,141	\$71.64	230	\$35.43	15	\$30.04
Vested	(105)	\$43.18	—	\$ —	—	\$ —
Forfeited	(91)	\$51.00	(16)	\$30.92	—	\$ —
Non-vested, end of year	<u>1,174</u>	<u>\$68.74</u>	<u>229</u>	<u>\$35.40</u>	<u>15</u>	<u>\$30.04</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. BALANCE SHEET COMPONENTS

Accounts Receivable, Net

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Accounts receivable, gross	\$242,259	\$168,483
Allowances for doubtful accounts receivable and sales returns	(5,984)	(5,287)
Total accounts receivable, net	<u>\$236,275</u>	<u>\$163,196</u>

Inventories

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Raw materials	\$104,284	\$ 16,683
Work-in-process	72,964	67,972
Finished goods	70,339	34,529
Total inventories	<u>\$247,587</u>	<u>\$119,184</u>

Other Current Assets

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Stock purchase assistance plan receivable, net (see Note 13)	\$ 492	\$29,009
Deferred tax assets	8,681	5,236
Prepayments to suppliers (see Note 19)	52,277	15,394
Costs and estimated earnings in excess billings (see Note 1)	39,136	—
Deferred project costs (see Note 1)	8,316	—
Valued added tax receivable	7,824	618
Note receivable from third party	—	10,000
Prepaid expenses	22,758	15,017
Other current assets	17,788	14,800
Total other current assets	<u>\$157,272</u>	<u>\$90,074</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. BALANCE SHEET COMPONENTS (Continued)

Property, Plant and Equipment, Net

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Land	\$ 35,368	\$ 21,771
Equipment	1,367,434	1,328,522
Buildings and leasehold improvements	351,697	256,757
Furniture and fixtures	12,815	10,734
Total property, plant and equipment, gross	1,767,314	1,617,784
Less: accumulated depreciation and amortization	(1,052,942)	(1,045,766)
Total property, plant and equipment, net	<u>\$ 714,372</u>	<u>\$ 572,018</u>

Other Assets

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Restricted cash related to:		
Synthetic lease (see Note 19)	\$ —	\$ 63,255
Customer advances (see Note 10)	20,000	—
Letters of credit (see Note 15)	47,887	—
Employee deferred compensation plan (see Note 17)	29,449	22,284
Prepayment to suppliers (see Note 19)	108,943	62,242
Investments:		
Debt securities (see Note 6)	68,865	—
Equity securities (see Note 6)	14,969	19,421
Joint venture (see Note 20)	5,304	4,994
Debt issuance costs, net	2,529	5,272
Value added tax receivable	24,269	—
Other assets	28,492	25,566
Total other assets	<u>\$350,707</u>	<u>\$203,034</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8. BALANCE SHEET COMPONENTS (Continued)

Other Current Liabilities

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Employee deferred compensation plan (see Note 17)	\$ 30,754	\$25,754
Customer advances (see Note 10)	9,250	12,304
Billings in excess of costs and estimated earnings (see Note 1)	69,900	—
Warranty reserve	10,502	3,446
Accrued sales representative commissions	5,124	3,898
Accrued royalties	4,476	7,409
Value added tax payable	18,189	638
Other current liabilities	49,340	35,544
Total other current liabilities	<u>\$197,535</u>	<u>\$88,993</u>

Deferred Income Taxes and Other Tax Liabilities

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Deferred income taxes	\$ 6,932	\$ 6,397
Non-current tax liabilities	50,983	34,074
Total deferred income taxes and other tax liabilities	<u>\$57,915</u>	<u>\$40,471</u>

Other Long-Term Liabilities

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Synthetic lease impairment loss accrual (see Note 19)	\$ —	\$ 5,746
Customer advances (see Note 10)	60,153	27,687
Warranty reserve	6,693	—
Other long-term liabilities	7,809	5,755
Total other long-term liabilities	<u>\$74,655</u>	<u>\$39,188</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. RESTRUCTURING

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Fiscal 2007 Restructuring Plan	\$583	\$ —	\$ —
Fiscal 2005 Restructuring Plan	—	510	27,519
Other	—	(21)	(93)
Total restructuring charges	<u>\$583</u>	<u>\$489</u>	<u>\$27,426</u>

Fiscal 2007 Restructuring Plan

During the fourth quarter of fiscal 2007, the Company's Board of Directors approved a restructuring plan to exit Cypress's manufacturing facility located in Round Rock, Texas ("Fiscal 2007 Restructuring Plan"). Under the Fiscal 2007 Restructuring Plan, the Company will transition production from the Texas facility to its more cost-effective facility in Bloomington, Minnesota as well as outside third-party foundries. The Company currently plans to continue operations at the Texas facility through the third quarter of fiscal 2008 and expects to complete the exit plan by the end of fiscal 2008. The exact timing of the exit plan could vary considerably if the Company locates a potential buyer. The exit plan will include the terminations of employees and the disposal of assets, primarily consisting of the building and manufacturing equipment, located in the Texas facility. The Fiscal 2007 Restructuring Plan does not involve the discontinuation of any product lines or other functions.

During the fourth quarter of fiscal 2007, the Company recorded total restructuring charges of \$0.6 million, consisting of \$0.4 million of personnel costs and \$0.2 million of other exit costs.

Personnel Costs:

In connection with the Fiscal 2007 Restructuring Plan, the Company expects to eliminate approximately 240 positions in the Texas facility in fiscal 2008. These employees are primarily in the manufacturing functions. As these employees will continue to provide services during fiscal 2008, the Company recognizes the severance and benefit costs associated with these employees ratably over the service period in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." The Company recorded an initial provision of \$0.4 million related to severance and benefits in the fourth quarter of fiscal 2007.

Impairment Analysis:

As a result of the exit plan, the Company performed an impairment analysis on the building and manufacturing equipment located in the Texas facility in accordance with SFAS No. 144 and determined that the carrying value of the assets should be recoverable.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. RESTRUCTURING (Continued)

Fiscal 2005 Restructuring Plan

During the first quarter of fiscal 2005, management implemented a restructuring plan ("Fiscal 2005 Restructuring Plan") aimed to reorganize its internal structure and reduce operating costs as the Company continued to experience softness in demand in the semiconductor industry. The Fiscal 2005 Restructuring Plan primarily included the following initiatives:

- an internal organizational change which consolidated four product divisions into three and reorganized the sales and marketing function to support the product divisions;
- exiting certain building leases as a result of the internal reorganization;
- a reduction in workforce;
- removal and disposal of excess equipment from operations as a result of the internal reorganization; and
- removal and disposal of equipment related to Silicon Magnetic Systems ("SMS"), a subsidiary of Cypress, as a result of management's decision to cease operations of SMS.

During fiscal 2005, the Company recorded total restructuring charges of \$27.5 million under the Fiscal 2005 Restructuring Plan, consisting of: (1) \$17.3 million associated with personnel costs, lease obligations and other items, and (2) \$10.2 million associated with property and equipment and related disposal costs. During fiscal 2006, the Company recorded additional restructuring charges of \$0.5 million primarily related to property and equipment.

Personnel Costs, Lease Obligations and Other:

Restructuring reserve activities related to personnel costs, lease obligations and other items are summarized as follows:

	<u>Personnel</u>	<u>Lease</u>	<u>Other</u>	<u>Total</u>
		<u>(In thousands)</u>		
Initial provision	\$15,498	\$1,156	\$ 680	\$17,334
Non-cash charges	(8,078)	(27)	—	(8,105)
Cash payments	<u>(7,399)</u>	<u>(355)</u>	<u>(680)</u>	<u>(8,434)</u>
Balance at January 1, 2006	21	774	—	795
Benefit	(21)	—	—	(21)
Cash payments	<u>—</u>	<u>(377)</u>	<u>—</u>	<u>(377)</u>
Balance at December 31, 2006	—	397	—	397
Cash payments	<u>—</u>	<u>(397)</u>	<u>—</u>	<u>(397)</u>
Balance at December 30, 2007	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Personnel Costs:

During fiscal 2005, the Company incurred an aggregate restructuring charge of \$15.5 million, consisting of severance and benefits of \$8.8 million associated with the reduction of the global

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. RESTRUCTURING (Continued)

workforce and stock-based compensation charges of \$6.7 million associated with the modification of stock option agreements for certain terminated employees.

The Company identified and terminated a total of 260 employees, consisting of 78 employees in manufacturing, 126 employees in research and development, and 56 employees in selling, general and administrative functions. Geographically, the reduction in workforce included 215 employees located in the United States, 22 employees in the Philippines, and 23 in other countries. As of December 31, 2006, the Company has completed all obligations relating to severance and benefits.

Lease Obligations:

During fiscal 2005, the Company recorded an aggregate restructuring charge of \$1.2 million for exiting leases related to a design center and a sales office in the United States and a design center in Europe. The Company estimated the costs of exiting leases based on the contractual terms of the agreements, the current real estate market condition and the assumptions of sublease rental income, if applicable. As of December 30, 2007, all lease obligations have been completed.

Other:

The Company terminated a contract with a sales representative in Europe as part of the reorganization of the worldwide sales force and recorded a charge of \$0.7 million related to the termination. As of January 1, 2006, the termination fee has been paid in full.

Property and Equipment:

During fiscal 2005, the Company recorded an aggregate restructuring charge of \$10.2 million, which consisted of:

1. \$6.2 million related to the write-down of excess property and equipment and \$0.2 million of net disposal costs as a result of the internal reorganization; and
2. \$3.6 million related to the write-down of excess property and equipment and \$0.2 million of net disposal costs due to the termination of the SMS operations.

The Company recorded charges of \$6.2 million related to the write-down of property and equipment that were removed from operations. These assets primarily consisted of manufacturing and test equipment located in the Company's manufacturing facility in Minnesota, manufacturing and test equipment and prototype tools previously used in operations by Silicon Light Machines, a subsidiary of Cypress, and equipment related to a design center in Europe that has been closed. As management had committed to plans to dispose of the assets by sale, the Company classified the assets as held for sale and recorded the assets at the lower of their carrying amount or fair value. Fair value was determined by market prices estimated by a third party that specializes in sales of used equipment. The assets were originally purchased based on internal forecast of growth in demand that subsequently did not materialize. Prior to the Fiscal 2005 Restructuring Plan, the Company did not determine the assets were impaired. The Company used a contra account to record the adjustment to reflect the assets held for sale at their new cost basis. The contra account was included in "Property, plant and equipment, net" in the Consolidated Balance Sheets, thereby adjusting the assets held for sale to fair value, and not as a liability within the restructuring reserves.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9. RESTRUCTURING (Continued)

During fiscal 2006, the Company recorded an additional restructuring charge of \$0.5 million as the proceeds received from the sale of the restructured assets were lower than the original estimated values. The Company completed the disposal of all restructured assets in fiscal 2006.

SMS:

In conjunction with the Fiscal 2005 Restructuring Plan, management approved a plan to cease operations of SMS, a subsidiary specializing in magnetic random access memories. SMS generated no revenues historically and as of the end of fiscal 2004, total assets, which primarily consisted of property and equipment, were less than 1% of the Company's consolidated total assets.

As a result of management's decision to cease operations, the Company had committed to a plan to dispose of the assets by sale and recorded charges of \$3.6 million related to the write-down of the assets. These assets primarily consisted of manufacturing and test equipment. The Company classified the assets as held for sale and recorded the assets at the lower of their carrying amount or fair value. Prior to the Fiscal 2005 Restructuring Plan, the Company did not determine the assets were impaired. The Company completed the disposal of the restructured assets in fiscal 2006.

NOTE 10. CUSTOMER ADVANCES

Customer advances recorded in the Consolidated Balance Sheets primarily consist of amounts related to SunPower:

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Customer advances:		
Current portion	\$ 9,250	\$12,304
Long-term	60,153	27,687
Total customer advances	<u>\$69,403</u>	<u>\$39,991</u>

From time to time, SunPower enters into agreements under which its customers make advances for future purchases of solar products. With the exception of one agreement as discussed below, SunPower generally does not pay interest on the advances and applies the advances as shipments of product occur.

In April 2005, SunPower entered into an agreement with one of its customers to supply solar cells. As part of this agreement, the customer agreed to fund expansion of SunPower's manufacturing capacity to support this customer's solar cell product demand. SunPower's settlement of principal on the advances is being recognized over product deliveries at a specified rate on a per-unit-of-product-delivered basis through December 2010. As of December 30, 2007 and December 31, 2006, outstanding advances from this customer totaled \$29.0 million and \$33.1 million, respectively. Beginning in January 2006, SunPower is obligated to pay interest at a rate of 5.7% per annum on the remaining unpaid balance. Interest expense totaled \$1.9 million and \$1.8 million in fiscal 2007 and 2006, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10. CUSTOMER ADVANCES (Continued)

In August 2007, SunPower entered into an agreement with one of its customers to supply polysilicon. Under the agreement, the customer agreed to make cash advance payments to SunPower in fiscal 2007 and 2008. Commencing in fiscal 2010 and continuing through fiscal 2019, these advance payments will be applied as a credit against the customer's polysilicon purchases from SunPower. Such polysilicon is expected to be used by the customer to manufacture ingots, and potentially wafers, which are to be sold to SunPower under an ingot supply agreement. As of December 30, 2007, SunPower received total advances of \$40.0 million from this customer. In addition, as of December 30, 2007, SunPower provided security for the advance payments made by this customer in the amount of \$20.0 million, which is being held in an escrow account. Commencing in 2010 and continuing through 2019, the balance in the escrow account will be reduced as the advance payments are applied against the customer's polysilicon purchases from SunPower.

SunPower has also entered into agreements with other customers who have made advance payments for solar products. These advances are applied as shipments of product occur. As of December 30, 2007 and December 31, 2006, outstanding customer advances under these agreements totaled \$0.4 million and \$6.9 million, respectively.

NOTE 11. FOREIGN CURRENCY DERIVATIVES

The Company operates and sells products in various global markets and purchases capital equipment using foreign currencies. As a result, the Company is exposed to risks associated with changes in foreign currency exchange rates. The Company may use various hedge instruments from time to time to manage the exposures associated with purchases of foreign sourced equipment, net asset or liability positions of its subsidiaries and forecasted revenues and expenses. The Company does not enter into foreign currency derivative financial instruments for speculative or trading purposes.

As of December 30, 2007 and December 31, 2006, the Company's hedge instruments consisted primarily of foreign exchange forward and option contracts. The Company estimates the fair value of its forward and option contracts based on spot and forward rates from published sources.

Hedges of forecasted foreign currency denominated revenues are designated as cash flow hedges and changes in fair value of the effective portion of hedge contracts are recorded in "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. Amounts are reclassified to the Consolidated Statements of Operations in the periods in which the related revenue is recognized. The effective portion of unrealized losses recorded in accumulated other comprehensive income (loss), net of tax, was \$3.6 million and \$1.6 million as of December 30, 2007 and December 31, 2006, respectively. As of December 30, 2007 and December 31, 2006, the Company had outstanding forward and option contracts with an aggregate notional value of \$140.1 million and \$105.6 million, respectively. All outstanding contracts will mature by July 2008.

In addition, the Company records hedges of certain foreign currency denominated monetary assets and liabilities. These hedges are recorded at fair value with the related gains or losses recorded in "Other income (expense), net" in the Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of December 30, 2007 and December 31, 2006, the Company had outstanding forward contracts with an aggregate notional value of \$59.8 million and \$33.3 million, respectively, to hedge the risks associated with foreign currency denominated assets and liabilities. All such outstanding contracts matured in January 2008.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Accumulated net unrealized gains on available-for-sale investments	\$ 5,509	\$ 277
Accumulated net unrealized losses on derivatives	(3,623)	(1,570)
Foreign currency translation adjustments	9,746	—
Total accumulated other comprehensive income (loss)	<u>\$11,632</u>	<u>\$(1,293)</u>

NOTE 13. STOCK PURCHASE ASSISTANCE PLAN (“SPAP”)

In May 2001, the Company’s stockholders approved the adoption of the SPAP program, which allowed for loans to employees to purchase shares of the Company’s common stock on the open market. Employees of the Company and its subsidiaries, including executive officers but excluding the chief executive officer and the Board of Directors, were allowed to participate in the SPAP program. The loans were granted to certain executive officers prior to adoption of the Sarbanes-Oxley Act of 2002, which prohibits most loans to executive officers of public corporations. Each loan was evidenced by a full recourse promissory note executed by the employee in favor of the Company and was collateralized by a pledge of the shares purchased with the proceeds of the loan. If a participant sold the shares purchased with the proceeds from the loan, the proceeds of the sale must first be used to repay the interest and then the principal on the loan before being received by the participant. The SPAP program was terminated in the first quarter of fiscal 2002 and no new loans have been granted to employees thereafter.

The following table summarizes the components of the outstanding loan balance:

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Principal:		
Active employees	\$ 148	\$19,638
Terminated employees	985	11,567
Total principal	<u>1,133</u>	<u>31,205</u>
Accrued interest:		
Active employees	13	3,905
Terminated employees	128	2,244
Total accrued interest	<u>141</u>	<u>6,149</u>
Total outstanding balance—principal and accrued interest	1,274	37,354
Less: allowance for uncollectible loans	<u>(782)</u>	<u>(8,345)</u>
Total outstanding balance, net	<u>\$ 492</u>	<u>\$29,009</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13. STOCK PURCHASE ASSISTANCE PLAN (“SPAP”) (Continued)

Management periodically reviews the allowance for uncollectible loans. During fiscal 2007, management assessed various factors, including the loan payment history in the past twelve months as well as the value of the underlying collateral. Based on this assessment, the Company reduced the allowance for uncollectible loans by approximately \$7.5 million and recorded the reduction in “Selling, general and administrative expenses” in the Consolidated Statement of Operations in fiscal 2007. During fiscal 2007 and fiscal 2006, the Company recorded total write-offs of \$0.1 million and \$0.1 million, respectively. No write-offs were recorded in fiscal 2005.

As loans were at interest rates below the estimated market rates, the Company recorded compensation expenses to reflect the difference between the rate charged and the estimated market rate for each loan outstanding. Compensation expenses related to these loans totaled \$0.7 million, \$1.8 million and \$2.0 million for fiscal 2007, 2006 and 2005, respectively.

NOTE 14. OTHER INCOME (EXPENSE), NET

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Amortization of debt issuance costs	\$ (6,212)	\$ (3,721)	\$(3,721)
Write-off of debt issuance costs (see Note 15)	(19,920)	—	—
Gain on investments in equity securities (see Note 6)	929	10,027	—
Impairment of investments (see Note 6)	(1,903)	(5,325)	(826)
Changes in fair value of investments under the deferred compensation plan (see Note 17)	1,138	2,128	1,099
Foreign currency exchange loss, net	(3,409)	(634)	(974)
Other income (expense)	611	909	(423)
Total other income (expense), net	<u>\$ (28,766)</u>	<u>\$ 3,384</u>	<u>\$(4,845)</u>

NOTE 15. DEBT AND EQUITY TRANSACTIONS

1.25% Convertible Subordinated Notes (“Cypress 1.25% Notes”)

During fiscal 2003, Cypress issued \$600.0 million in principal amount of the Cypress 1.25% Notes with interest payable on June 15 and December 15. The Cypress 1.25% Notes were due in June 2008. The Cypress 1.25% Notes, which may be converted at anytime by the holders prior to maturity, was convertible into 55.172 shares of Cypress’s common stock per \$1,000 principal amount, plus a cash payment of \$300. The Cypress 1.25% Notes were callable by Cypress at anytime. As of December 31, 2006, the outstanding balance of the Cypress 1.25% Notes was \$599.0 million.

In February 2007, Cypress called for redemption of the outstanding Cypress 1.25% Notes. Holders had the option to convert the Cypress 1.25% Notes into 55.172 shares of Cypress’s common stock per \$1,000 principal amount plus \$300 in cash. Alternatively, holders had the option to have their Cypress 1.25% Notes redeemed. Upon redemption, holders would receive \$1,000 plus accrued interest per

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

\$1,000 principal amount. As a result of the redemption, Cypress issued approximately 33.0 million shares of its common stock and paid approximately \$179.7 million in cash to the holders in fiscal 2007. In addition, Cypress wrote off approximately \$4.7 million of related unamortized debt issuance costs.

1.00% Convertible Senior Notes (“Cypress 1.00% Notes”)

In March 2007, Cypress entered into the following transactions: (1) the issuance of \$600.0 million in principal amount of the Cypress 1.00% Notes, (2) a convertible note hedge transaction with respect to Cypress’s common stock, (3) the issuance of warrants to acquire shares of Cypress’s common stock, and (4) an accelerated share repurchase program.

Cypress 1.00% Notes:

Cypress issued \$600.0 million in principal amount of the Cypress 1.00% Notes. The Cypress 1.00% Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on September 15, 2007. The Cypress 1.00% Notes will mature on September 15, 2009 unless earlier repurchased or converted. The Cypress 1.00% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than \$1,000, then the excess conversion value will be convertible into cash, common stock or a combination of cash and common stock, at Cypress’s election. The initial effective conversion price of the Cypress 1.00% Notes is \$23.90 per share, which represented a premium of 26.5% to the closing price of Cypress’s common stock on the date of issuance. Holders who convert their Cypress 1.00% Notes in connection with certain types of corporate transactions constituting a fundamental change may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, in the event of a fundamental change, holders may require Cypress to purchase all or a portion of their Cypress 1.00% Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date. In connection with the offering of the Cypress 1.00% Notes, Cypress incurred approximately \$12.9 million of debt issuance costs.

Holders may freely convert the Cypress 1.00% Notes on or after June 15, 2009 until the close of business on the business day immediately preceding the maturity date. Prior to June 15, 2009, holders may convert their Cypress 1.00% Notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, Cypress’s common stock closes at a price in excess of 130% of the conversion price in effect (or \$31.07) on the last day of such calendar quarter.

In December 2007, the common stock price conversion test was met, as the closing price of Cypress’s common stock exceeded \$31.07 for 20 trading days within the last 30 trading days of the fourth quarter of fiscal 2007. Accordingly, holders may exercise their right to convert the Cypress 1.00% Notes during the first quarter of fiscal 2008. As of February 28, 2008, no holders have converted the Cypress 1.00% Notes.

In addition, since the holders are able to exercise their right to convert the Cypress 1.00% Notes, Cypress classified the outstanding principal amount of \$600.0 million as short-term debt in the Consolidated Balance Sheet as of December 30, 2007. In addition, Cypress accelerated the amortization of the remaining unamortized debt issuance costs and wrote off \$7.0 million of debt issuance costs in the fourth quarter of fiscal 2007. If the common stock price conversion test is not met in a subsequent quarter, the Cypress 1.00% Notes may be re-classified as non-current debt until the Cypress 1.00%

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

Notes are within 12 months of maturity or until such time when the common stock price conversion test is triggered again.

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

Convertible Note Hedge and Warrants:

In connection with the issuance of the Cypress 1.00% Notes, Cypress entered into a separate convertible note hedge transaction. The convertible note hedge transaction is expected to reduce the potential dilution upon conversion of the Cypress 1.00% Notes in the event the market value per share of Cypress's common stock at the time of exercise is greater than the conversion price of \$23.90. For the earnings per share computation, the convertible note hedge is not included in the diluted calculation as it is anti-dilutive in accordance with SFAS No. 128, "Earnings per Share" ("SFAS No. 128").

In addition, Cypress sold warrants to acquire up to approximately 25.1 million shares of Cypress's common stock in a separate warrant transaction. The warrants are to be settled on a net-exercise basis, either in shares of stock or cash, at Cypress's election. The potential dilution caused by the warrants occurs if the value of Cypress's common stock is above the exercise price of \$27.00. See Note 16 for further discussion of the impact of the warrants on the Company's earnings per share computation.

The convertible note hedge and warrants are separate transactions entered into by Cypress. They are not part of the terms of the Cypress 1.00% Notes and do not affect the holders' rights.

In conjunction with the convertible note hedge and the warrants, Cypress paid net premiums of approximately \$17.0 million using a portion of the proceeds from the offering of the Cypress 1.00% Notes. The amount was recorded in "Stockholders' equity" in the Consolidated Balance Sheet.

Accelerated Share Repurchase Program:

In connection with the issuance of the Cypress 1.00% Notes, Cypress entered into an accelerated share repurchase program. Pursuant to the program, Cypress repurchased shares of its common stock on the open market based on the volume weighted-average price of Cypress's common stock, subject to a per-share floor price and cap price, calculated over a period of approximately three months. The accelerated share repurchase program was funded with approximately \$571.0 million of net proceeds from the offering of the Cypress 1.00% Notes. Cypress completed the accelerated share repurchase program in fiscal 2007 and repurchased a total of 28.9 million shares at an average price of \$19.78.

1.25% Senior Convertible Debentures ("SunPower 1.25% Notes")

In February 2007, SunPower issued \$200.0 million in principal amount of the SunPower 1.25% Notes. Interest is payable on February 15 and August 15 of each year, commencing August 15, 2007. The SunPower 1.25% Notes will mature on February 15, 2027. Holders may require SunPower to repurchase all or a portion of the SunPower 1.25% Notes on each of February 15, 2012, February 15, 2017 and February 15, 2022, or if SunPower experiences certain types of corporate transactions

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

constituting a fundamental change. In addition, SunPower may redeem some or all of the SunPower 1.25% Notes on or after February 15, 2012. The SunPower 1.25% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than \$1,000, then the excess conversion value will be convertible into common stock. The initial effective conversion price of the SunPower 1.25% Notes is \$56.75 per share, which represented a premium of 27.5% to the closing price of SunPower's common stock on the date of issuance. In connection with the offering of the SunPower 1.25% Notes, SunPower incurred approximately \$6.0 million of debt issuance costs.

Holders may freely convert the SunPower 1.25% Notes on or after August 1, 2025 until the close of business on the business day immediately preceding the maturity date. Prior to August 1, 2025, holders may convert their SunPower 1.25% Notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, SunPower's common stock closes at a price in excess of 125% of the conversion price in effect (or \$70.94) on the last day of such calendar quarter.

In December 2007, the common stock price conversion test was met, as the closing price of SunPower's common stock exceeded \$70.94 for 20 trading days within the last 30 trading days of the fourth quarter of fiscal 2007. Accordingly, holders may exercise their right to convert the SunPower 1.25% Notes during the first quarter of fiscal 2008. As of February 28, 2008, no holders have converted the SunPower 1.25% Notes.

In addition, since the holders are able to exercise their right to convert the SunPower 1.25% Notes, SunPower classified the outstanding principal amount of \$200.0 million as short-term debt in the Consolidated Balance Sheet as of December 30, 2007. In addition, SunPower accelerated the amortization of the remaining unamortized debt issuance costs and wrote off \$4.4 million of debt issuance costs in the fourth quarter of fiscal 2007. If the common stock price conversion test is not met in a subsequent quarter, the SunPower 1.25% Notes may be re-classified as non-current debt until the SunPower 1.25% Notes are within 12 months of maturity or until such time when the common stock price conversion test is triggered again.

The SunPower 1.25% Notes are senior, unsecured obligations of SunPower, ranking equally with all existing and future senior unsecured indebtedness of SunPower. The SunPower 1.25% Notes are effectively subordinated to SunPower's secured indebtedness to the extent of the value of the related collateral and structurally subordinated to indebtedness and other liabilities of SunPower's subsidiaries. The SunPower 1.25% Notes do not contain any covenants or sinking fund requirements.

Concurrent with the offering of the SunPower 1.25% Notes, SunPower lent 2.9 million shares of its class A common stock, all of which are being borrowed by an affiliate of one of the underwriters. SunPower did not receive any proceeds from the offering of class A common stock, but received a nominal lending fee of \$0.001 per share for each share of common stock that is loaned pursuant to the share lending agreement described below.

Share loans under the share lending agreement will terminate and the borrowed shares must be returned to SunPower under the following circumstances: (i) the underwriter may terminate all or any portion of a loan at any time; (ii) SunPower may terminate any or all of the outstanding loans upon a default by the underwriter under the share lending agreement, including a breach by the underwriter of any of its representations and warranties, covenants or agreements under the share lending agreement, or the bankruptcy of the underwriter; or (iii) if SunPower enters into a merger or similar business

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

combination transaction with an unaffiliated third party (as defined in the agreement), all outstanding loans will terminate on the effective date of such event. In addition, the underwriter has agreed to return to SunPower any borrowed shares in its possession on the date anticipated to be five business days before the closing of certain merger or similar business combinations described in the share lending agreement.

Any shares loaned to the underwriter's affiliate will be issued and outstanding for corporate law purposes and, accordingly, the holders of the borrowed shares will have all of the rights of a holder of SunPower's outstanding shares, including the right to vote the shares on all matters submitted to a vote of SunPower's stockholders and the right to receive any dividends or other distributions that SunPower may pay or make on its outstanding shares of class A common stock.

0.75% Senior Convertible Debentures ("SunPower 0.75% Notes")

In July 2007, SunPower issued \$225.0 million in principal amount of the SunPower 0.75% Notes. Interest is payable on February 1 and August 1 of each year, commencing February 1, 2008. The SunPower 0.75% Notes will mature on August 1, 2027. Holders may require SunPower to repurchase all or a portion of the SunPower 0.75% Notes on each of August 1, 2010, August 1, 2015, August 1, 2020, and August 1, 2025, or if SunPower is involved in certain types of corporate transactions constituting a fundamental change. In addition, SunPower may redeem some or all of the SunPower 0.75% Notes on or after August 1, 2010. The SunPower 0.75% Notes are initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value is greater than \$1,000, then the excess conversion value will be convertible into cash, common stock or a combination of cash and common stock, at SunPower's election. The initial effective conversion price of the SunPower 0.75% Notes is \$82.24 per share, which represented a premium of 27.5% to the closing price of SunPower's common stock on the date of issuance. The applicable conversion rate will be subject to customary adjustments in certain circumstances. In connection with the offering of the SunPower 0.75% Notes, SunPower incurred approximately \$4.9 million of debt issuance costs.

Holders may freely convert the SunPower 0.75% Notes on or after February 15, 2025 until the close of business on the business day immediately preceding the maturity date. Prior to February 15, 2025, holders may convert their SunPower 0.75% Notes if for 20 trading days within the last 30 trading days of the immediately preceding quarter, SunPower's common stock closes at a price in excess of 125% of the conversion price in effect (or \$102.80) on the last day of such calendar quarter.

In December 2007, the common stock price conversion test was met, as the closing price of SunPower's common stock exceeded \$102.80 for 20 trading days within the last 30 trading days of the fourth quarter of fiscal 2007. Accordingly, holders may exercise their right to convert the SunPower 0.75% Notes during the first quarter of fiscal 2008. As of February 28, 2008, no holders have converted the SunPower 0.75% Notes.

In addition, since the holders are able to exercise their right to convert the SunPower 0.75% Notes, SunPower classified the outstanding principal amount of \$225.0 million as short-term debt in the Consolidated Balance Sheet as of December 30, 2007. In addition, SunPower accelerated the amortization of the remaining unamortized debt issuance costs and wrote off \$3.8 million of debt issuance costs in the fourth quarter of fiscal 2007. If the common stock price conversion test is not met in a subsequent quarter, the SunPower 0.75% Notes may be re-classified as non-current debt until the SunPower 0.75% Notes are within 12 months of maturity or until such time when the common stock price conversion test is triggered again.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

The SunPower 0.75% Notes are senior, unsecured obligations of SunPower, ranking equally with all existing and future senior unsecured indebtedness of SunPower. The SunPower 0.75% Notes are effectively subordinated to SunPower's secured indebtedness to the extent of the value of the related collateral, and structurally subordinated to indebtedness and other liabilities of SunPower's subsidiaries. The SunPower 0.75% Notes do not contain any covenants or sinking fund requirements.

Concurrent with the offering of the SunPower 0.75% Notes, SunPower lent 1.8 million shares of its class A common stock, all of which are being borrowed by an affiliate of one of the underwriters. SunPower did not receive any proceeds from the offering of class A common stock, but received a nominal lending fee of \$0.001 per share for each share of common stock that is loaned pursuant to the share lending agreement described below.

Share loans under the share lending agreement will terminate and the borrowed shares must be returned to SunPower under the following circumstances: (i) the underwriter may terminate all or any portion of a loan at any time; (ii) SunPower may terminate any or all of the outstanding loans upon a default by the underwriter under the share lending agreement, including a breach by the underwriter of any of its representations and warranties, covenants or agreements under the share lending agreement, or the bankruptcy of the underwriter; or (iii) if SunPower enters into a merger or similar business combination transaction with an unaffiliated third party (as defined in the agreement), all outstanding loans will terminate on the effective date of such event. In addition, the underwriter has agreed to return to SunPower any borrowed shares in its possession on the date anticipated to be five business days before the closing of certain merger or similar business combinations described in the share lending agreement. Except in limited circumstances, any such shares returned to SunPower cannot be reborrowed.

Fair Value of Convertible Debt

The following table presents the carrying amount and fair value of the convertible debt:

	As of			
	December 30, 2007		December 31, 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Cypress 1.25% Notes	\$ —	\$ —	\$598,996	\$729,338
Cypress 1.00% Notes	600,000	978,162	—	—
SunPower 1.25% Notes	200,000	465,576	—	—
SunPower 0.75% Notes	225,000	366,316	—	—
Total	<u>\$1,025,000</u>	<u>\$1,810,054</u>	<u>\$598,996</u>	<u>\$729,338</u>

The fair value of the convertible debt is determined based on quoted prices as reported by Bloomberg, which were \$1,630.27 per \$1,000 principal amount for the Cypress 1.00% Notes, \$2,327.88 per \$1,000 principal amount for the SunPower 1.25% Notes, and \$1,628.07 per \$1,000 principal amount for the SunPower 0.75% Notes as of December 30, 2007.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

Line of Credit—Cypress

During fiscal 2003, Cypress entered into a \$50.0 million, 24-month revolving line of credit with a major financial institution. In December 2007, this line of credit was extended to December 2008 and the total available amount was increased to \$55.0 million. Loans made under the line of credit bear interest based upon the Wall Street Journal Prime Rate (7.3% as of December 30, 2007) or LIBOR plus 1.5% (6.2% as of December 30, 2007). The line of credit agreement includes a variety of covenants including restrictions on the incurrence of indebtedness, incurrence of loans, the payment of dividends or distribution on its capital stock, and transfers of assets and financial covenants with respect to net worth. As of December 30, 2007, Cypress was in compliance with all of the financial covenants. Cypress's obligations under the line of credit are guaranteed and collateralized by the common stock of certain Cypress business entities other than SunPower. Cypress intends to use the line of credit on an as-needed basis to fund working capital and capital expenditures. To date, there have been no borrowings under the line of credit.

In conjunction with certain guarantees, Cypress obtained irrevocable standby letters of credit in the aggregate amount of \$39.1 million to secure payments under an equipment lease. As of December 30, 2007, the letters of credit have been reduced to \$35.4 million. See "Lease Guarantees" under Note 19 for further discussion.

Lines of Credit—SunPower

In December 2005, SunPower entered into a \$25.0 million three-year revolving credit facility with affiliates of Credit Suisse and Lehman Brothers. SunPower terminated the credit facility in July 2007. No borrowings were ever made under this credit facility.

In connection with the PowerLight acquisition in January 2007, SunPower assumed a line of credit PowerLight had with Union Bank of California with an outstanding balance of approximately \$3.6 million. During fiscal 2007, SunPower paid off the outstanding balance in full. The line of credit expired in July 2007.

In July 2007, SunPower entered into a credit agreement with Wells Fargo Bank ("Wells Fargo"), which provides for a \$50.0 million unsecured revolving credit line, with a \$40.0 million unsecured letter of credit subfeature, and a separate \$50.0 million secured letter of credit facility. SunPower may borrow up to \$50.0 million and request that Wells Fargo issue up to \$40.0 million in letters of credit under the unsecured letter of credit subfeature through July 31, 2008. Letters of credit issued under the subfeature reduce SunPower's borrowing capacity under the revolving credit line. SunPower may request that Wells Fargo issue up to \$50.0 million in letters of credit under the secured letter of credit facility through July 31, 2012. SunPower will pay interest on outstanding borrowings and a fee for outstanding letters of credit. SunPower has the ability at any time to prepay outstanding loans. All borrowings must be repaid by July 31, 2008, and all letters of credit issued under the unsecured letter of credit subfeature shall expire on or before July 31, 2008 unless SunPower provides by such date collateral in the form of cash or cash equivalents in the aggregate amount available to be drawn under letters of credit outstanding at such time. All letters of credit issued under the secured letter of credit facility shall expire no later than July 31, 2012. SunPower concurrently entered into a security agreement with Wells Fargo, granting a security interest in a deposit account to secure its obligations in connection with any letters of credit that might be issued under the credit agreement. In connection with the credit agreement, two wholly-owned subsidiaries of SunPower entered into an associated

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

continuing guaranty with Wells Fargo. The terms of the credit agreement include certain conditions to borrowings, representations and covenants, and events of default customary for financing transactions of this type. As of December 30, 2007, four letters of credit totaling \$32.0 million were issued by Wells Fargo under the unsecured letter of credit subfeature and eight letters of credit totaling \$47.9 million were issued by Wells Fargo under the secured letter of credit facility. The credit agreement with Wells Fargo requires SunPower to collateralize the letters of credit of \$47.9 million issued under the secured letter of credit facility with cash placed in an interest bearing restricted account with Wells Fargo. As long as the secured letters of credit are outstanding, SunPower will not be able to withdraw the associated funds in the restricted account, though all interest earned on such restricted funds can be withdrawn periodically.

As of December 30, 2007, SunPower was not in compliance with two debt covenants. On January 18, 2008, SunPower entered into an agreement with Wells Fargo to amend the existing credit agreement. Under the amended credit agreement, Wells Fargo waived compliance requirements with certain restrictive covenants. In exchange for waiving compliance with such restrictive covenants, SunPower agreed to maintain a balance of funds in a deposit account with Wells Fargo, in an amount no less than the aggregate outstanding indebtedness owed by SunPower to Wells Fargo under both the line of credit, including its letter of credit subfeature, and the letter of credit line, as collateral securing such outstanding indebtedness. Had Wells Fargo not waived this violation, SunPower would have been in default of its debt covenants and SunPower may have been required to immediately repay the aggregate outstanding indebtedness owed by SunPower to Wells Fargo under both the line of credit, including its letter of credit subfeature, and the letter of credit line.

Equity Option Contracts

As of December 31, 2006, the Company had outstanding a series of equity options on its common stock with an initial cost of \$26.0 million that were originally entered into in fiscal 2001. The contracts required physical settlement. Upon expiration of the options, if the Company's stock price was above the threshold price of \$21 per share, the Company would receive a settlement value totaling \$30.3 million in cash. If the Company's stock price was below the threshold price of \$21 per share, the Company would receive 1.4 million shares of its common stock. Alternatively, the contracts may be renewed and extended.

During fiscal 2006 and 2005, the Company received total premiums of approximately \$0.7 million and \$0.1 million, respectively, upon extensions of the contracts. The amounts were recorded in "Additional paid-in capital" in the Consolidated Balance Sheets.

During fiscal 2007, the contracts expired and the Company did not renew them. Because the Company's stock price was below \$21 per share at the expiration date, the Company received 1.4 million shares of its common stock, which was accounted for as treasury stock.

Stock Repurchase Program

In fiscal 2007, Cypress's Board of Directors authorized a new stock repurchase program of up to \$300.0 million ("Fiscal 2007 Stock Repurchase Program"). The Fiscal 2007 Stock Repurchase Program is in addition to the accelerated share repurchase program associated with the Cypress 1.00% Notes. The authorization allows Cypress to purchase its common stock, its outstanding Cypress 1.00% Notes or to enter into equity derivative transactions related to its common stock. All previous repurchase

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15. DEBT AND EQUITY TRANSACTIONS (Continued)

programs have been terminated as a result of the Fiscal 2007 Stock Repurchase Program. Stock repurchases under the Fiscal 2007 Stock Repurchase Program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The Fiscal 2007 Stock Repurchase Program may be limited or terminated at any time without prior notice. As of December 30, 2007, no shares had been repurchased and \$300.0 million remained outstanding under the Fiscal 2007 Stock Repurchase Program.

NOTE 16. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average common shares outstanding for the period. Diluted net income per share is computed using the weighted-average common shares outstanding and any dilutive potential common shares. Diluted net loss per common share is computed using the weighted-average common shares outstanding for the period and excludes all dilutive potential common shares because the Company is in a net loss position and their inclusion would have been anti-dilutive. The Company's dilutive securities primarily include stock options, restricted stock units, convertible debt and warrants.

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands, except per-share amounts)		
Net income (loss) per share—basic:			
Net income (loss)	\$394,300	\$ 39,482	\$(92,153)
Weighted-average common shares	155,559	140,809	133,188
Net income (loss) per share—basic	\$ 2.53	\$ 0.28	\$ (0.69)
Net income (loss) per share—diluted:			
Net income (loss)	\$394,300	\$ 39,482	\$(92,153)
Adjustments:			
Interest expense and related costs associated with convertible debt	1,173	7,847	—
Other	(882)	(2,313)	—
Net income (loss) for diluted computation	\$394,591	\$ 45,016	\$(92,153)
Weighted-average common shares	155,559	140,809	133,188
Effect of dilutive securities:			
Convertible debt	6,737	33,048	—
Warrants	1,252	—	—
Stock options and unvested restricted stock units	8,288	5,414	—
Weighted-average common shares for diluted computation	171,836	179,271	133,188
Net income (loss) per share—diluted	\$ 2.30	\$ 0.25	\$ (0.69)

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16. NET INCOME (LOSS) PER SHARE (Continued)

Convertible Debt:

The Cypress 1.00% Notes, which were issued in March 2007, are convertible debt which requires Cypress to settle the principal value of the debt in cash and any conversion premiums in either cash or stock (see Note 15). The Company applied the treasury stock method in determining the dilutive impact of both the Cypress 1.00% Notes and the warrants issued in conjunction with the Cypress 1.00% Notes.

The Company applied the if-converted method in determining the impact of the Cypress 1.25% Notes on the diluted earnings per share computation, as the principal value was convertible into shares plus cash. The Cypress 1.25% Notes were fully redeemed in February 2007 (see Note 15).

Other Adjustments:

The other adjustments to net income used in the diluted computation primarily included the adjustments to Cypress's share of SunPower's net income as a result of reflecting the impact of Cypress's ownership interest in SunPower on a fully diluted basis in accordance with SFAS No. 128.

Anti-Dilutive Securities:

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Stock options and unvested restricted stock units	6,752	23,016	39,615
Convertible debt	—	—	33,103

NOTE 17. EMPLOYEE BENEFIT PLANS

Key Employee Bonus Plan

The Company has a key employee bonus plan, which provides for incentive payments to certain Cypress key employees including executive officers. Payments under the plan are determined based upon certain performance measures, including the Company's actual earnings per share compared to the annual operating plan as well as achievement of strategic, operational and financial goals established for each key employee. The Company recorded total charges of \$10.7 million under the plan in fiscal 2007, \$10.4 million in fiscal 2006, and a credit of \$(0.5) million in fiscal 2005.

Performance Profit Sharing Plan

The Company has a performance profit sharing plan, which provides incentive payments to all Cypress employees. The plan was adopted in fiscal 2006. Payments under the plan are determined based upon the Company's earnings per share and the employees' percentage of success in achieving certain performance goals. During fiscal 2007 and 2006, the Company recorded total charges of \$6.7 million and \$6.5 million, respectively, under the plan.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17. EMPLOYEE BENEFIT PLANS (Continued)

Deferred Compensation Plan

In fiscal 1995, the Company adopted a deferred compensation plan, which provides certain key employees, including its executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-free basis. The Company does not make contributions to the deferred compensation plan or guarantee returns on the investments. Participant deferrals and investment gains and losses remain the Company's assets and are subject to claims of general creditors.

The Company accounts for the deferred compensation plan in accordance with Emerging Issues Task Force ("EITF") Issue No. 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." In accordance with EITF Issue No. 97-14, the plan assets (excluding the amounts invested in Cypress's common stock which is accounted for as treasury stock carried at cost) are recorded at fair value with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value with the offset being recorded as an operating expense or credit. As of December 30, 2007 and December 31, 2006, the plan assets totaled \$29.4 million and \$22.3 million, respectively, and the liabilities totaled \$30.8 million and \$25.8 million, respectively.

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Changes in fair value of assets recorded in:			
Other income (expense), net	\$1,138	\$ 2,128	\$1,099
Changes in fair value of liabilities recorded in:			
Cost of revenues	(679)	(871)	(614)
Research and development expenses	(782)	(1,003)	(707)
Selling, general and administrative expenses	(596)	(765)	(540)
Total expense, net	<u>\$ (919)</u>	<u>\$ (511)</u>	<u>\$ (762)</u>

During fiscal 2003, the Company took two actions to minimize the impact on the operating results as a result of changes to the market value of the Company's common stock held in the deferred compensation plan. First, a restriction on the purchase of additional shares of the Company's common stock by plan participants was implemented. Second, the Company entered into an arrangement with a major financial institution, wherein the Company purchased a forward contract to hedge the impact of market changes of the Company's common stock held by the plan. The forward contract was carried at fair value with any changes in the fair value recorded as an operating expense or credit in the Consolidated Statements of Operations. In fiscal 2007, 2006 and 2005, the Company recorded credits of \$2.8 million, \$0.6 million and \$0.6 million, respectively, related to the forward contract.

During fiscal 2007, the Company terminated the forward contract and received proceeds of \$5.4 million from the settlement. In addition, the Company received proceeds of \$1.2 million following the death of a plan participant.

Pension Plans

The Company sponsors certain defined benefit pension plans, covering employees in certain of its international locations. The Company does not have pension plans for its United States-based employees. As of December 30, 2007 and December 31, 2006, projected benefit obligations totaled \$5.3 million and \$3.6 million, respectively, and the fair value of plan assets was \$2.3 million and \$2.2 million, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17. EMPLOYEE BENEFIT PLANS (Continued)

401(k) Plan

The Company sponsors a 401(k) plan which provides participating employees with an opportunity to accumulate funds for retirement. The Company does not make contributions to the 401(k) plan.

NOTE 18. INCOME TAXES

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Geographic distribution of income (loss) before income taxes and minority interest:			
United States income (loss)	\$270,298	\$ (101)	\$(109,056)
Foreign income	<u>127,979</u>	<u>52,811</u>	<u>15,839</u>
Income (loss) before income taxes and minority interest	<u>\$398,277</u>	<u>\$52,710</u>	<u>\$ (93,217)</u>
Income tax benefit (provision):			
Current tax benefit (expense):			
Federal	\$ (67)	\$ (986)	\$ —
State	(998)	(500)	928
Foreign	<u>(19,190)</u>	<u>(7,184)</u>	<u>(1,349)</u>
Total current tax expense	<u>(20,255)</u>	<u>(8,670)</u>	<u>(421)</u>
Deferred tax benefit:			
Federal	14,499	—	—
State	4,320	—	—
Foreign	<u>1,750</u>	<u>1,811</u>	<u>1,760</u>
Total deferred tax benefit	<u>20,569</u>	<u>1,811</u>	<u>1,760</u>
Income tax benefit (provision)	<u><u>\$ 314</u></u>	<u><u>\$ (6,859)</u></u>	<u><u>\$ 1,339</u></u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. INCOME TAXES (Continued)

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

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Benefit (provision) at U.S. statutory rate of 35%	\$(139,494)	\$(18,449)	\$ 32,626
Foreign income at other than U.S. rates	33,517	12,976	5,745
State income taxes, net of federal benefit	(875)	(325)	(34)
Alternative minimum tax	(67)	(988)	—
Future benefits not recognized	—	—	(33,293)
Recognition of prior-year benefits	119,163	—	—
Release of previously accrued income taxes	—	—	980
Non-deductible acquisition costs and charges	(8,275)	—	(4,482)
Non-deductible stock-based compensation expense	(3,227)	—	—
Other, net	(428)	(73)	(203)
Income tax benefit (provision)	<u>\$ 314</u>	<u>\$ (6,859)</u>	<u>\$ 1,339</u>

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

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
Deferred tax assets:		
Credits and net operating loss carryovers	\$ 146,219	\$ 199,349
Excess of book over tax depreciation	6,647	—
Reserves and accruals	105,193	78,456
Deferred income	3,429	5,080
Total deferred tax assets	261,488	282,885
Less: valuation allowance	(250,597)	(216,717)
Deferred tax assets, net	<u>10,891</u>	<u>66,168</u>
Deferred tax liabilities:		
Excess of tax over book depreciation	—	(56,258)
Intangible assets arising from acquisitions	(9,141)	(11,071)
Total deferred tax liabilities	(9,141)	(67,329)
Net deferred tax assets (liabilities)	<u>\$ 1,750</u>	<u>\$ (1,161)</u>

At December 30, 2007, deferred tax assets of \$250.6 million were fully reserved due to uncertainty of realization in accordance with SFAS No. 109. In compliance with SFAS No. 109, current and long-term net deferred taxes have been netted to the extent they are in the same tax jurisdiction.

At December 30, 2007, Cypress had U.S. federal net operating loss carryovers of approximately \$423.1 million, which, if not utilized, will expire from 2012 through 2026. Of this amount, approximately

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. INCOME TAXES (Continued)

\$311.7 million is due to the exercise of employee stock options which, when recognized, the tax benefit of these loss carryforwards will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision. Cypress had state net operating loss carryovers of approximately \$134.6 million which, if not utilized, will expire from 2015 through 2016. A portion of these net operating loss carryovers relates to recent acquisitions and are subject to certain limitations under the IRC. In addition, Cypress had U.S. federal tax credit carryforwards of approximately \$86.2 million, which, if not utilized, will expire from 2008 through 2027, and state tax credit carryforwards of approximately \$55.3 million, which currently do not have any expiration date.

At December 30, 2007, SunPower had federal net operating loss carryforwards of approximately \$147.6 million. These federal net operating loss carryforwards will expire at various dates from 2011 to 2027. SunPower had California state net operating loss carryforwards of approximately \$73.5 million as of December 30, 2007, which expire at various dates from 2011 to 2017. SunPower also had research and development credit carryforwards of approximately \$3.9 million for both federal and state tax purposes. SunPower has provided a valuation allowance on its deferred tax assets, consisting primarily of net operating loss carryforwards, because of the uncertainty of their realizability. In the event SunPower determines that the realization of these deferred tax assets associated with its acquisition of PowerLight and Cypress's acquisition of SunPower is more likely than not, the reversal of the related valuation allowance will first reduce goodwill, then intangible assets and lastly as a reduction to the provision for taxes. Due in part to equity financings, SunPower experienced "ownership changes" as defined in Section 382 of the IRC. Accordingly, SunPower's use of a portion of the net operating loss carryforwards and credit carryforwards is limited by the annual limitations described in Sections 382 and 383 of the IRC. The majority of the net operating loss carryforwards were created by employee stock transactions. Because there is uncertainty as to the realizability of the loss carryforwards, the portion created by employee stock transactions are not reflected on the Consolidated Balance Sheets.

The United States income taxes and foreign withholding taxes have not been provided on a cumulative total of \$507.3 million of undistributed earnings for certain non-United States subsidiaries. During fiscal 2005, the Company studied the impact of the one-time favorable foreign dividend provision enacted as part of the American Jobs Creation Act of 2004, and determined that repatriation of its undistributed foreign earnings was not advantageous to the Company.

The Company's global operations involve manufacturing, research and development, and selling activities. The Company's operations outside the United States are in certain countries that impose a statutory tax rate both higher and lower than the United States. The Company is subject to tax holidays in the Philippines and India where it manufactures and designs certain of its products. These tax holidays are scheduled to expire at varying times within the next one and four years. Overall, the Company expects its foreign earnings to be taxed at rates lower than the statutory tax rate in the United States.

SunPower currently benefits from income tax holiday incentives in the Philippines pursuant to its Philippine subsidiary's registrations with the Board of Investments and Philippine Economic Zone Authority, which provide that SunPower pays no income tax in the Philippines for four years pursuant to SunPower's Board of Investments non-pioneer status and Philippine Economic Zone Authority registrations, and six years pursuant to SunPower's Board of Investments pioneer status registration. SunPower's current income tax holidays expire in 2010, and SunPower intends to apply for extensions. However, these tax holidays may or may not be extended. SunPower believes that as its Philippine tax

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. INCOME TAXES (Continued)

holidays expire, (a) gross income attributable to activities covered by SunPower's Philippine Economic Zone Authority registrations will be taxed at a 5% preferential rate, and (b) SunPower's Philippine net income attributable to all other activities will be taxed at the statutory Philippine corporate income tax rate of 32%. As of yet, no tax benefit has been realized from the income tax holiday due to operating losses in the Philippines.

Unrecognized Tax Benefits

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase in the liability for unrecognized tax benefits of \$3.1 million and a corresponding increase in "Accumulated deficit" in the Consolidated Balance Sheet. A reconciliation of unrecognized tax benefits is as follows:

(In thousands)

Unrecognized tax benefits, as of January 1, 2007	\$40,013
Additions based on tax positions related to current year	4,473
Additions based on tax positions related to prior years	6,497
Unrecognized tax benefits, as of December 30, 2007	<u>\$50,983</u>

Included in the unrecognized tax benefit balance as of December 30, 2007 were \$45.9 million that would affect the Company's effective tax rate if recognized.

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

- commencement, continuation or completion of examinations of the Company's tax returns by the United States or foreign tax authorities; and
- expiration of statute of limitations on the Company's tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company does business. Management does not anticipate material changes in the unrecognized tax benefits within the next 12 months.

Classification of Interest and Penalties

The Company's policy is to classify interest expense and penalties, if any, as components of income tax provision in the Consolidated Statements of Operations. As of December 30, 2007 and December 31, 2006, the amount of accrued interest and penalties totaled \$4.7 million and \$3.1 million, respectively. The Company recorded interest and penalties of approximately \$1.6 million and zero during fiscal 2007 and fiscal 2006, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18. INCOME TAXES (Continued)

Examinations by Tax Authorities

The following table summarizes the Company's major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of December 30, 2007:

<u>Tax Jurisdictions</u>	<u>Tax Years</u>
United States	2003 and onward
Philippines	2004 and onward
India	2002 and onward
California	2003 and onward

While years prior to 2003 for the United States corporate tax return are not open for assessment, the IRS can adjust net operating loss and research and development carryovers that were generated in prior years and carried forward to 2003.

The IRS is currently conducting audits of: (1) Cypress's federal income tax returns for fiscal 2003 and 2004, and (2) SP Systems' federal income tax returns for fiscal 2004 and 2005. In addition, non-United States tax authorities are conducting tax audits of the Company's subsidiaries in the Philippines for fiscal 2005 and 2006 and India for fiscal 2002 and 2003. As of December 30, 2007, no material adjustments to the tax liabilities have been proposed by the IRS or other foreign tax authorities. However, the IRS or the foreign tax authorities have not completed their examinations and there can be no assurance that there will be no material adjustments upon the completion of their reviews.

NOTE 19. COMMITMENTS AND CONTINGENCIES

Guarantees and Product Warranties

The Company applies the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others," to its agreements that contain guarantee or indemnification clauses. These provisions expand those required by SFAS No. 5, "Accounting for Contingencies," by requiring that guarantors disclose, and in certain cases record the fair value of, certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote.

Lease Guarantees:

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

Pursuant to a master lease agreement, Grace has leased from CIT Technologies Corporation ("CIT") certain semiconductor manufacturing equipment. In conjunction with the master lease agreement, the Company has entered into a series of guarantees with CIT for the benefit of Grace. Under the guarantees, the Company has agreed to unconditional guarantees to CIT of the rental payments payable by Grace for the leased equipment under the master lease agreement. If Grace fails

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. COMMITMENTS AND CONTINGENCIES (Continued)

to pay any of the quarterly rental payments, the Company will be obligated to pay such outstanding amounts within 10 days of a written demand from CIT. If the Company fails to pay such amount, interest will accrue at a rate of 9% per annum on any unpaid amounts. To date, the Company has not made any payments under these guarantees.

Pursuant to the guarantees, the Company obtained irrevocable letters of credit to secure the rental payments under the guarantees in the event a demand is made by CIT on the Company. The amount available under the letters of credit will decline according to schedules mutually agreed upon by the Company and CIT. If the Company defaults, CIT will be entitled to draw on the letters of credit.

In connection with the guarantees, the Company was granted options to purchase ordinary shares of Grace. As of December 30, 2007, the Company determined that the fair values of the guarantees and the options were not material to its consolidated financial statements.

The following table summarizes the terms of the guarantees between the Company and CIT:

Fiscal Year	Number of Guarantees	Lease Term of Equipment Under Each Guarantee	Total Rental Payments Due		Total Irrevocable Letters of Credit		Grace Shares Granted to Cypress
			At Inception	As of December 30, 2007	At Inception	As of December 30, 2007	
					(In thousands)		
2006	One	36 months	\$ 8,255	\$ 5,503	\$ 6,392	\$ 5,092	2,272
2007	Five	36 months	42,278	34,424	32,726	30,314	16,955
			<u>\$50,533</u>	<u>\$39,927</u>	<u>\$39,118</u>	<u>\$35,406</u>	<u>19,227</u>

Under the current terms of the agreement as approved by the Company's Board of Directors, the maximum amount of all guaranteed equipment lease obligations will not exceed approximately \$60 million. The Company is under no obligation to guarantee any future payments on additional equipment leases for the benefit of Grace and will do so only in its sole discretion.

Indemnification Obligations:

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

It is not possible to predict the maximum potential amount of future payments under these agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on its business, financial condition or results of

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. COMMITMENTS AND CONTINGENCIES (Continued)

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

Product Warranties:

The Company estimates its warranty costs based on historical warranty claim experience and applies this estimate to the revenue stream for products under warranty. The estimated future warranty obligations related to product sales are recorded in the period in which the related revenue is recognized. The warranty accrual is reviewed quarterly to verify that it properly reflects the remaining estimated obligations based on the anticipated expenditures over the balance of the obligation periods. Adjustments are made when actual warranty claim experience differs from estimates.

Cypress generally warrants its products against defects in materials and workmanship for a period of one year and that product warranty is generally limited to a refund of the original purchase price of the product or a replacement part. SunPower warrants or guarantees the performance of its solar panels at certain levels of power output for extended periods, often as long as 25 years. It warrants the solar cells for at least ten years. In addition, SunPower generally provides warranty on systems installed for a period of five years. SunPower also passes through to customers long-term warranties from the OEMs of certain system components. Warranties of 20 to 25 years from solar panels suppliers are standard, while inverters typically carry a two, five or ten year warranty. SunPower's potential liability is generally in the form of product replacement or repair.

The following table presents the Company's warranty reserve activities:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Beginning balance	\$ 6,024	\$ 2,869	\$ 2,717
Warranty reserves assumed in connection with the PowerLight acquisition	6,542	—	—
Provisions	15,624	9,801	7,283
Settlements made	(7,922)	(6,646)	(7,131)
Ending balance	<u>\$20,268</u>	<u>\$ 6,024</u>	<u>\$ 2,869</u>

SunPower represented approximately 85%, 57% and 20% of the warranty reserve balances as of December 30, 2007, December 31, 2006 and January 1, 2006, respectively.

Operating Lease Commitments

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

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. COMMITMENTS AND CONTINGENCIES (Continued)

As of December 30, 2007, future minimum lease payments under non-cancelable operating leases were as follows:

(In thousands)

2008	\$12,529
2009	10,622
2010	8,808
2011	7,576
2012	6,806
2013 and thereafter	<u>22,013</u>
Total	<u>\$68,354</u>

Rental expenses totaled approximately \$11.4 million, \$12.5 million and \$12.1 million in fiscal 2007, 2006 and 2005, respectively.

Synthetic Lease

In June 2003, the Company entered into a synthetic lease agreement for four facilities located in San Jose, California and one facility located in Bloomington, Minnesota. The synthetic lease required the Company to purchase the properties from the lessor for \$62.7 million or to arrange for the properties to be acquired by a third party at lease expiration, which was June 2008. The synthetic lease obligation of \$62.7 million was not recorded in the Company's Consolidated Balance Sheets. The synthetic lease required monthly payments to the lessor that varied based on LIBOR plus a spread. Such payments totaled approximately \$0.7 million in fiscal 2007, \$3.6 million in fiscal 2006 and \$2.5 million in fiscal 2005.

The Company was required to evaluate periodically the expected fair value of the properties at the end of the lease term. As the Company determined that it was estimable and probable that the expected fair value of the properties at the end of the lease term would be less than \$62.7 million, the Company ratably accrued for the impairment loss over the remaining lease term. As of December 31, 2006, the total impairment loss accrual was \$5.7 million. The fair value analysis on the properties was performed by management with the assistance of independent appraisal firms.

The Company was also required to maintain restricted cash to serve as collateral for the synthetic lease. As of December 31, 2006, the balance of restricted cash and accrued interest income was \$63.3 million.

During fiscal 2007, the Company exercised its option to purchase the properties under the synthetic lease, which included land and buildings, for \$62.7 million from the lessor. The payment was made using the restricted cash collateral. At the date of termination, the Company determined that an impairment loss of \$12.7 million existed, representing the difference between the properties' fair value of \$50.0 million determined at the date of termination and the lease obligation of \$62.7 million. As a result, the Company recorded an additional impairment loss of \$7.0 million in fiscal 2007, representing the difference between the total impairment loss of \$12.7 million and \$5.7 million that had previously been accrued. In addition, the Company recorded \$50.0 million related to the properties in "Property, plant and equipment, net" in the Consolidated Balance Sheet in fiscal 2007.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation and Asserted Claims

In August 2006, Quantum Research Group added Cypress as a defendant in a lawsuit in the United States District Court, District of Baltimore, Maryland. The amended complaint served on Cypress alleges patent infringement, defamation, false light and unfair competition related to Cypress's PSoC microcontroller product as specifically programmed for a single customer. In June 2007, the parties received the claim construction order, and discovery and depositions have been completed since that time. Motions for summary judgment which, if granted, could end the case in Cypress's favor are currently pending. Cypress is being indemnified by a third party for this litigation. Cypress has reviewed and investigated the allegations and believes it has meritorious defenses to these allegations and will vigorously defend itself in this matter.

In October 2006, Cypress received a grand jury subpoena issued from the United States District Court for the Northern District of California seeking information regarding an investigation by the Antitrust Division of the Department of Justice ("DOJ") into possible antitrust violations in the static random access memory ("SRAM") industry. In December 2007, the Korean Federal Trade Commission ("KFTC") opened a criminal investigation into this same market. Cypress has made, and will continue to make available employees, documents and other relevant information to the DOJ's Antitrust Division to support the investigation. Cypress expects to provide the same assistance to the KFTC. Cypress has reviewed and investigated the allegations and believes it has meritorious defenses to these allegations and will vigorously defend itself in this matter.

In connection with the DOJ investigation discussed above, in October 2006, Cypress, along with a majority of the other SRAM manufacturers, was sued in over 82 purported consumer class action suits in various United States Federal District Courts. The cases variously allege claims under the Sherman Antitrust Act, state antitrust laws and unfair competition laws. The lawsuits seek restitution, injunction and damages in an unspecified amount. The cases are now consolidated in the United States District Court for the Northern District of California. The cases have been largely stayed with the exception of document production which Cypress continues to deliver to plaintiffs. In addition to the federal class action lawsuits, Cypress, along with a number of the SRAM manufacturers, was also sued in purported consumer anti-trust class action suits in three separate provinces in Canada. The Florida Attorney General's office has also filed a civil investigative demand on behalf of all Florida SRAM consumers. Cypress is engaged in document production in this matter that is consistent with the production being made to the civil plaintiffs and the DOJ. Cypress believes it has meritorious defenses to these allegations and will vigorously defend itself in these matters.

Cypress, along with several other co-defendants, is currently party to trade secret misappropriation litigation filed by Silvaco Data Systems in Santa Clara Superior Court in May 2004. The cell characterization software at issue in this case was previously purchased by Cypress and the co-defendants from Circuit Semantics, a business no longer in operation. Prior to filing this suit against Cypress, Silvaco sued and later settled with Circuit Semantics for misappropriation of certain of Silvaco's trade secrets. Silvaco's complaint against Cypress alleges that Cypress misappropriated Silvaco's trade secrets by using Circuit Semantics' software previously purchased by Cypress. The Cypress trial, which began in September 2007 and was the first among the five co-defendants, is currently stayed pending an appeal of a preliminary ruling related to a statute of limitations issue. While Cypress has been engaged in the appeal process, three of the four remaining defendants have prevailed on motions for summary judgment that would result in a dismissal of the case on facts and

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. COMMITMENTS AND CONTINGENCIES (Continued)

arguments similar to Cypress's case. Silvaco has appealed these rulings. Cypress believes it has meritorious defenses to the allegations and will vigorously defend itself in this matter.

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

Purchase Commitments

Polysilicon:

SunPower has agreements with various suppliers of polysilicon, ingots, wafers, solar cells and solar panels. These agreements specify future quantities and pricing of products to be supplied by the vendors and manufacturers for periods up to 12 years and there are certain consequences, such as forfeiture of advanced deposits and liquidation damages relating to previous purchases, in the event that SunPower terminates the arrangements. As of December 30, 2007 and December 31, 2006, total purchase obligations related to such supply agreements were approximately \$2,099.5 million and \$717.6 million, respectively.

The following table summarizes the future purchase obligations as of December 30, 2007:

(In thousands)

2008	\$ 263,150
2009	380,557
2010	364,323
2011	371,633
2012	146,470
2013 and thereafter	573,362
Total	<u>\$2,099,495</u>

Under certain of these agreements, SunPower is required to make prepayments to the suppliers and manufacturers over the terms of the arrangements. As of December 30, 2007 and December 31, 2006, the balances of prepayments made by SunPower were \$161.2 million and \$77.6 million, respectively. As of December 30, 2007 and December 31, 2006, SunPower's future prepayment obligations related to these agreements totaled approximately \$118.4 million and \$168.8 million, respectively.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 19. COMMITMENTS AND CONTINGENCIES (Continued)

The following table summarizes the future prepayment obligations as of December 30, 2007:

(In thousands)

2008	\$ 58,433
2009	48,840
2010	<u>11,100</u>
Total	<u><u>\$118,373</u></u>

Other:

The Company's other purchase obligations include primarily other non-cancelable purchase orders for materials, services, manufacturing equipment, building improvements and supplies in the ordinary course of business. Purchase obligations are defined as enforceable agreements that are legally binding on the Company and that specify all significant terms, including quantity, price and timing. As of December 30, 2007 and December 31, 2006, non-cancelable purchase obligations totaled \$219.3 million and \$133.3 million, respectively.

The following table summarizes the future purchase obligations as of December 30, 2007:

(In thousands)

2008	\$217,851
2009	<u>1,405</u>
Total	<u><u>\$219,256</u></u>

NOTE 20. JOINT VENTURES

Woongjin Energy Co., Ltd. ("Woongjin Energy")

In the third quarter of fiscal 2006, SunPower entered into an agreement with Woongjin Coway Co., Ltd. ("Woongjin"), a provider of environmental products located in Korea, to form Woongjin Energy, a joint venture to manufacture monocrystalline silicon ingots. Under the joint venture, SunPower and Woongjin have funded the joint venture through capital investments. In addition, Woongjin Energy obtained a \$33.0 million loan originally guaranteed by Woongjin. SunPower will supply polysilicon and technology required for the silicon ingot manufacturing to the joint venture, and SunPower will procure the manufactured silicon ingots from the joint venture. Woongjin Energy began manufacturing in the third quarter of fiscal 2007, and SunPower expects to purchase approximately \$250.3 million of silicon ingots from Woongjin Energy under a five-year agreement.

As of December 30, 2007, SunPower's investment in the joint venture totaled \$4.4 million, which comprised of a 19.9% equity investment valued at \$1.1 million and a \$3.3 million convertible note that is convertible at SunPower's option into an additional 20.1% equity ownership in the joint venture. SunPower accounted for its joint venture in Woongjin Energy using the equity method of accounting. SunPower's share of Woongjin Energy's losses totaling \$0.3 million in fiscal 2007 and was included in "Other income (expense), net" in the Consolidated Statements of Operations. Neither party has contractual obligations to provide any additional funding to the joint venture.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 20. JOINT VENTURES (Continued)

In October 2007, SunPower entered into an agreement with Woongjin and Woongjin Holdings Co., Ltd. (“Woongjin Holdings”), whereby Woongjin transferred its 80.1% equity investment held in Woongjin Energy to Woongjin Holdings and Woongjin Holdings assumed all rights and obligations formerly owned by Woongjin under the joint venture agreement described above, including the \$33.0 million loan guarantee.

First Philec Solar Corporation (“First Philec Solar”)

In the fourth quarter of fiscal 2007, SunPower entered into an agreement with First Philippine Electric Corporation (“First Philec”) to form First Philec Solar, a joint venture to provide wafer slicing services of silicon ingots to SunPower. This joint venture will operate in the Philippines, with silicon ingots to be supplied primarily from SunPower. SunPower expects to purchase an aggregate quantity of silicon wafers sufficient to support up to approximately 660 megawatts annually of solar cell manufacturing production based on SunPower’s expected silicon utilization through the five-year wafer supply and sales agreement, which is anticipated to begin in the second half of fiscal 2008 when First Philec Solar’s proposed manufacturing capacity is expected to become operational.

As of December 30, 2007, SunPower had invested \$0.9 million in First Philec Solar comprised of a 16.9% equity investment. SunPower accounted for its joint venture using the equity method of accounting.

NOTE 21. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

The Company designs, develops, manufactures and markets a broad range of programmable system solutions for various markets including consumer, computation, data communications, automotive and industrial. In addition, Cypress is a majority shareholder of SunPower. The Company evaluates its reportable business segments in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” The Company operates in the following five reportable business segments:

Reportable Segments	Description
Consumer and Computation Division . . .	a product division focusing on PSoC, USB and timing solutions
Data Communications Division	a product division focusing on data communication devices for wireless handset and professional / personal video systems
Memory and Imaging Division	a product division focusing on static random access memories, nonvolatile memories and image sensor products
SunPower	a majority-owned subsidiary of Cypress specializing in solar products and services
Other	includes Silicon Light Machines and Cypress Systems, both majority-owned subsidiaries of Cypress, certain foundry-related services performed by Cypress, and certain corporate expenses

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Revenues:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Consumer and Computation Division	\$ 357,671	\$ 334,237	\$303,587
Data Communications Division	117,755	131,930	156,490
Memory and Imaging Division	330,305	342,276	311,235
SunPower	774,790	236,510	78,736
Other	15,866	46,600	36,348
Total revenues	<u>\$1,596,387</u>	<u>\$1,091,553</u>	<u>\$886,396</u>

Income (Loss) Before Income Taxes and Minority Interest:

In assessing the financial results of the reportable business segments and making operating decisions, the Company's chief operating decision maker does not allocate certain expenses and items to the segments as described in the table below:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Consumer and Computation Division	\$ 47,791	\$ 18,615	\$ 29,095
Data Communications Division	21,340	27,200	10,043
Memory and Imaging Division	42,306	27,297	(41,369)
SunPower	116,079	38,015	(9,656)
Other	(19,859)	(8,465)	(4,551)
Unallocated items:			
Stock-based compensation expense	(112,604)	(47,452)	(5,581)
Amortization of intangibles and other acquisition-related costs	(62,189)	(20,607)	(45,147)
Restructuring charges(1)	(583)	(489)	(20,703)
Write-off of debt issuance costs	(19,920)	—	—
Reduction in allowance for uncollectible SPAP loans	7,479	—	—
Gain on divestitures	17,958	14,730	—
Gain on sale of SunPower's common stock	373,173	—	—
Gain on investments in equity securities	929	10,027	—
Impairment related to synthetic lease	(7,006)	(2,704)	(1,217)
Impairment of investments	(1,903)	(5,325)	(826)
Other	(4,714)	1,868	(3,305)
Income (loss) before income taxes and minority interest	<u>\$ 398,277</u>	<u>\$ 52,710</u>	<u>\$(93,217)</u>

- (1) In fiscal 2005, restructuring charges included approximately \$6.7 million of stock-based compensation (see Note 9). For the purpose of this table, this amount was included in the "Stock-based compensation expense" line item.

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Depreciation:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
Consumer and Computation Division	\$ 33,531	\$ 35,395	\$ 39,649
Data Communications Division	11,459	14,446	20,988
Memory and Imaging Division	31,001	36,208	40,456
SunPower	27,335	16,363	7,127
Other	1,995	5,118	5,964
Total depreciation	<u>\$105,321</u>	<u>\$107,530</u>	<u>\$114,184</u>

Geographical Information

The following table presents the Company's total revenues by geographical locations:

	Year Ended		
	December 30, 2007	December 31, 2006	January 1, 2006
	(In thousands)		
North America, primarily the United States	\$ 582,977	\$ 310,372	\$265,487
Europe:			
Spain	223,166	4,554	2,171
Germany	107,165	137,837	67,606
Other	161,988	101,287	72,835
Asia:			
China	185,900	191,622	149,799
Taiwan	103,699	104,988	112,648
Japan	83,849	103,846	89,183
Other	147,643	137,047	126,667
Total revenues	<u>\$1,596,387</u>	<u>\$1,091,553</u>	<u>\$886,396</u>

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

	As of	
	December 30, 2007	December 31, 2006
	(In thousands)	
United States	\$283,256	\$313,331
Philippines	426,562	255,420
Other	4,554	3,267
Total property, plant and equipment, net	<u>\$714,372</u>	<u>\$572,018</u>

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Customer Information

No customers accounted for more than 10% of the Company's consolidated revenues for fiscal 2007 and 2006. One customer of Cypress, a distributor, accounted for approximately 11% of the Company's consolidated revenues for fiscal 2005.

NOTE 22. SUBSEQUENT EVENTS

Investments—Auction Rate Securities

As of December 30, 2007, the carrying value of the Company's auction rate securities totaled \$95.3 million, of which \$27.5 million was classified as short-term investments and \$67.8 million was classified as long-term investments (see Note 6). Subsequent to December 30, 2007, most of the Company's investments in auction rate securities were scheduled to reset. As of February 28, 2008, \$44.9 million of the Company's auction rate securities have failed auctions, and the Company expects that the remaining balance of auction rate securities will fail, due to sell orders exceeding buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. In the event the Company needs to access these funds associated with failed auctions, they are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. As a result, the Company has classified \$67.8 million of auction rate securities as long-term investments as of December 30, 2007. This amount represents the balance of auction rate securities as of December 30, 2007 that had not been sold by the Company subsequent to the end of fiscal 2007.

The Company determined that no other-than-temporary impairment losses existed as of December 30, 2007 as all holdings had successful auctions. However, if the issuer of the auction rate securities is unable to successfully close future auctions or does not redeem the auction rate securities, or the United States government fails to support its guaranty of the obligations, the Company may be required to adjust the carrying value of the auction rate securities and record an other-than-temporary impairment charge.

Stock Repurchase Program

During the first quarter of fiscal 2008, the Company's Board of Directors approved an additional \$300.0 million under the Fiscal 2007 Stock Repurchase Program, bringing the total amount that may be used for stock purchases to \$600.0 million. As of February 28, 2008, the Company used \$269.1 million in cash to repurchase a total of 12.2 million shares at an average price of \$22.02, leaving \$330.9 million available for future expenditure under the Fiscal 2007 Stock Repurchase Program.

Joint Venture—NorSun AS ("NorSun")

In January 2008, SunPower entered into a long-term polysilicon supply agreement (the "First Polysilicon Agreement") with NorSun. The First Polysilicon Agreement provides the general terms and conditions pursuant to which NorSun is to sell, and SunPower is to purchase, specified annual quantities of polysilicon at specified prices from fiscal 2010 through 2019. The First Polysilicon Agreement provides that NorSun's obligation to sell polysilicon is conditioned upon receipt of polysilicon from NorSun's joint venture with Swicorp Jousour Company and Chemical Development

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22. SUBSEQUENT EVENTS (Continued)

Company for the construction of a new polysilicon manufacturing facility in Saudi Arabia. NorSun will initially hold a 50% equity interest in the joint venture company.

In January 2008, SunPower and the anticipated shareholders of the joint venture company also agreed upon the terms and conditions of an additional long-term polysilicon supply agreement (the “Second Polysilicon Agreement” and, together with the First Polysilicon Agreement, the “Supply Agreements”) between SunPower and the joint venture company, which is in the process of formation. The Second Polysilicon Agreement provides the general terms and conditions pursuant to which the joint venture company is to sell, and SunPower is to purchase, specified annual quantities of polysilicon at specified prices from fiscal 2010 through 2019. The Second Polysilicon Agreement provides that the joint venture company’s obligation to sell polysilicon is conditioned upon the new polysilicon manufacturing facility achieving commercial operation.

If applicable conditions under the Supply Agreements are satisfied, the aggregate quantity of polysilicon to be purchased by SunPower from fiscal 2010 through 2019 is expected to satisfy production requirements for up to approximately 2,500 megawatts of solar cell manufacturing based on SunPower’s expected polysilicon utilization during such period.

In connection with the Supply Agreements, NorSun and SunPower entered into an Option Agreement (the “Option Agreement”), which provides the general terms and conditions pursuant to which SunPower will deliver cash advance payments to NorSun for the purchase of polysilicon under the First Polysilicon Agreement, which NorSun will use to fund its portion of the equity investment in the joint venture company. SunPower will provide a letter of credit or deposit funds in an escrow account to secure NorSun’s right to such advance payments. Under the terms of the Option Agreement, SunPower may exercise a call option and apply the advance payments to purchase fifty percent, subject to certain adjustments, of NorSun’s equity interest in the joint venture. SunPower may exercise its option at any time until six months following the commercial operation of the Saudi Arabian polysilicon manufacturing facility. The Option Agreement also provides NorSun an option to put fifty percent, subject to certain adjustments, of its equity interest in the joint venture to SunPower. NorSun’s option is exercisable commencing July 1, 2009 through six months following commercial operation of the polysilicon manufacturing facility. NorSun will grant a security interest in its equity interest in the joint venture subject to the put-call option to secure its obligations under the Option Agreement. If either the call option or the put option is exercised, (i) the parties will credit any advance payments for polysilicon against the option’s exercise price, (ii) the First Polysilicon Agreement will terminate, and (iii) SunPower will assume NorSun’s rights and obligations under a long-term polysilicon supply agreement between NorSun and the joint venture company pursuant to which the joint venture company will sell, and SunPower will purchase, specified annual quantities of polysilicon at specified prices from fiscal 2010 through 2019, representing the same quantities and prices under, and on terms and conditions substantially similar to, the First Polysilicon Agreement.

Joint Ventures—Woongjin Energy and First Philec Solar

In connection with the Woongjin Energy joint venture (see Note 20), SunPower and Woongjin Holding provided Woongjin Energy with additional funding through capital investments in which SunPower invested an additional \$5.4 million in the joint venture in January 2008. As a result, SunPower’s equity investment in the joint venture increased from 19.9% to 27.4%. In addition, if

CYPRESS SEMICONDUCTOR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 22. SUBSEQUENT EVENTS (Continued)

SunPower elects to convert the convertible note, its equity ownership in the joint venture would increase by an additional 12.6%.

In connection with the First Philec Solar joint venture (see Note 20), SunPower invested an additional \$0.2 million in the joint venture in January 2008. As a result, SunPower's equity investment in the joint venture increased from 16.9% to 20.0%.

Escrow from the Acquisition of PowerLight

In January 2008, following the first anniversary of the closing date of the PowerLight acquisition (see Note 3), SunPower released approximately one-half of the original escrow amount, leaving approximately \$11.8 million in cash and approximately 0.4 million shares of SunPower's class A common stock in escrow. SunPower's rights to recover damages under several provisions of the acquisition agreement also expired in January 2008. SunPower is now entitled to recover only limited types of losses, and its recovery will be limited to the amount available in the escrow fund at the time of a claim.

Amended Credit Agreement with Wells Fargo

In February 2008, SunPower entered into an amendment to the credit agreement with Wells Fargo (see Note 15), increasing the unsecured letter of credit subfeature from \$40.0 million to \$50.0 million. Under the new credit agreement, SunPower may request that Wells Fargo issue up to \$50.0 million in letters of credit under the unsecured letter of credit subfeature through July 31, 2008. SunPower agreed to maintain a balance of funds in a deposit account with Wells Fargo, in an amount no less than the aggregate outstanding indebtedness owed by SunPower to Wells Fargo under the letter of credit subfeature, as collateral securing such outstanding indebtedness.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Cypress Semiconductor Corporation and its subsidiaries (the “Company”) at December 30, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company’s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 7 of Notes to Consolidated Financial Statements, the Company changed the manner in which it accounts for stock-based compensation in fiscal 2006.

As discussed in Note 18 of Notes to Consolidated Financial Statements, the Company changed the manner in which it accounts for its uncertain tax positions in fiscal 2007.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, management has excluded SunPower Corporation, Systems ("SP Systems"), formerly known as PowerLight Corporation, from its assessment of internal control over financial reporting as of December 30, 2007 because it was acquired by SunPower Corporation ("SunPower"), a majority-owned subsidiary of the Company, in a purchase business combination during fiscal 2007. We have also excluded SP Systems from our audit of internal control over financial reporting. SP Systems is a wholly-owned subsidiary of SunPower. SP Systems' total assets and total revenues represented 16% and 29%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2007.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 2, 2008

UNAUDITED QUARTERLY FINANCIAL DATA

	Three Months Ended			
	December 30, 2007	September 30, 2007	July 1, 2007	April 1, 2007
(In thousands, except per-share amounts)				
Revenues	\$431,214	\$449,535	\$372,786	\$342,852
Gross margin	\$151,330	\$141,999	\$122,748	\$132,305
Net income (loss)	\$ 3,138	\$ 29,823	\$363,360	\$ (2,021)
Net income (loss) per share—basic	\$ 0.02	\$ 0.19	\$ 2.39	\$ (0.01)
Net income (loss) per share—diluted	\$ 0.01	\$ 0.18	\$ 2.29	\$ (0.01)

	Three Months Ended			
	December 31, 2006	October 1, 2006	July 2, 2006	April 2, 2006
(In thousands, except per-share amounts)				
Revenues	\$286,973	\$290,207	\$265,236	\$249,137
Gross margin	\$119,362	\$123,558	\$113,893	\$103,412
Net income	\$ 15,840	\$ 10,714	\$ 5,847	\$ 7,081
Net income per share—basic	\$ 0.11	\$ 0.08	\$ 0.04	\$ 0.05
Net income per share—diluted	\$ 0.09	\$ 0.06	\$ 0.04	\$ 0.05

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and can only provide reasonable assurance with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting as of December 30, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework*. Based on our assessment using those criteria, our management (including our Chief Executive Officer and Chief Financial Officer) concluded that our internal control over financial reporting was effective as of December 30, 2007.

Our evaluation of the effectiveness of our internal control over financial reporting as of December 30, 2007 excluded the internal control over financial reporting of SunPower Corporation, Systems ("SP Systems"), formerly known as PowerLight Corporation, because SP Systems was acquired by SunPower Corporation ("SunPower"), a majority-owned subsidiary of Cypress, in a purchase business combination during fiscal 2007. SP Systems is a wholly-owned subsidiary of SunPower whose total assets and total revenues represented 16% and 29%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 30, 2007.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on our internal control over financial reporting. The report on the audit of internal control over financial reporting appears on pages 156 - 157 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K. We will file a definitive proxy statement pursuant to Regulation 14A (the “Proxy Statement”) not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning our directors is incorporated by reference from the information set forth in the sections titled “Proposal One—Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement.

The information required by this item concerning our executive officers is incorporated by reference from the information set forth in the sections titled “Executive Officers” under Item 1 of this Annual Report on Form 10-K and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement.

The information required by this item concerning our audit committee and its financial expert is incorporated by reference from the information set forth in the section titled “Board Structure and Compensation” in our Proxy Statement.

We have adopted a code of ethics that applies to all of our directors, officers and employees. We have made the code of ethics available, free of charge, on our website at www.cypress.com.

The information required by this item concerning recommendations of director nominees by security holders is incorporated by reference from the information set forth in the section titled “Board Structure and Compensation” in our Proxy Statement. There have been no changes to the procedures by which security holders may recommend nominees to our Board of Directors in fiscal 2007.

On May 17, 2007, we submitted our 303A Annual Chief Executive Officer Certification to the New York Stock Exchange.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item concerning executive compensation is incorporated by reference from the information set forth in the section titled “Executive Compensation” in our Proxy Statement.

The information required by this item concerning compensation of directors is incorporated by reference from the information set forth in the section titled “Board Structure and Compensation” in our Proxy Statement.

The information required by this item concerning our compensation committee is incorporated by reference from the information set forth in the sections titled “Compensation Committee Interlocks and Insider Participation” and “Report of the Compensation Committee of the Board of Directors” in our Proxy Statement.

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

The information required by this item regarding security ownership of certain beneficial owners, directors and executive officers is incorporated by reference from the information set forth in the section titled “Security Ownership of Certain Beneficial Owners and Management” in our Proxy Statement.

The information required by this item regarding our equity compensation plans is incorporated by reference from Item 5 of this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item regarding transactions with certain persons is incorporated by reference from the information set forth in the section titled “Certain Relationships and Related Transactions” in our Proxy Statement.

The information required by this item regarding director independence is incorporated by reference from the information set forth in the section titled “Board Structure and Compensation” in our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item regarding fees and services is incorporated by reference from the information set forth in the section titled “Proposal Two—Ratification of the Selection of Independent Registered Public Accounting Firm” in our Proxy Statement.

The information required by this item regarding the audit committee’s pre-approval policies and procedures is incorporated by reference from the information set forth in the section titled “Report of the Audit Committee of the Board of Directors” in our Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements:

	<u>Page</u>
Consolidated Balance Sheets	76
Consolidated Statements of Operations	77
Consolidated Statements of Stockholders' Equity	78
Consolidated Statements of Cash Flows	80
Notes to Consolidated Financial Statements	82

2. Financial Statement Schedule:

	<u>Page</u>
Schedule II—Valuation and Qualifying Accounts	167

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements or Notes to Consolidated Financial Statements under Item 8.

3. Exhibits:

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Incorporated by References</u>		
		<u>Form</u>	<u>Filing Date/ Period End Date</u>	<u>Filed Herewith</u>
2.1	Agreement and Plan of Reorganization dated as of January 16, 2001 by and among Cypress Semiconductor Corporation, Clock Acquisition Corporation, International Microcircuits, Inc. and with respect to Article VII, U.S. Bank Trust, N.A., as Escrow Agent, and Kurt R. Jagers, as Securityholder Agent.	10-Q	4/1/2001	
2.2	Agreement and Plan of Reorganization dated as of January 26, 2001 by and among Cypress Semiconductor Corporation, Hilo Acquisition Corporation, HiB and Semiconductors, Inc., certain shareholder parties thereto, and U.S. Bank Trust, National Association, as Escrow Agent.	10-Q	4/1/2001	
2.3	Stock Purchase Agreement dated as of May 29, 2001 by and among Cypress Semiconductor Corporation, ScanLogic Holding Company, ScanLogic Corporation, certain shareholder parties thereto, and with respect to Article VII, U.S. Bank Trust, N.A., as Escrow Agent, and Israel Zilberman, as Securityholder Agent.	10-Q	7/1/2001	
2.4	Agreement and Plan of Reorganization dated as of June 2, 2001 by and among Cypress Semiconductor Corporation, Lion Acquisition Corporation, Lara Networks, Inc., U.S. Bank Trust National Association, as Escrow Agent (with respect to Article VII only), and Kenneth P. Lawler, as Securityholder Agent (with respect to Articles I and VII only).	10-Q	9/30/2001	

Exhibit Number	Exhibit Description	Incorporated by References		
		Form	Filing Date/ Period End Date	Filed Herewith
2.5	First Amendment to Agreement and Plan of Reorganization dated as of July 3, 2001 by and among Cypress Semiconductor Corporation, Lion Acquisition Corporation, Lara Networks, Inc., U.S. Bank Trust, N.A., as Escrow Agent, and Kenneth P. Lawler, as Securityholder Agent.	10-Q	9/30/2001	
2.6	Agreement and Plan of Reorganization dated as of August 19, 2001 by and among Cypress Semiconductor Corporation, In-System Design, Inc., and with respect to Article VII, U.S. Bank Trust, N.A., as Escrow Agent, and Lynn Watson, as Securityholder Agent.	10-Q	9/30/2001	
2.7	First Amendment to Agreement and Plan of Reorganization dated as of September 10, 2001 by and among Cypress Semiconductor Corporation, Idaho Acquisition Corporation, In-System Design, Inc., U.S. Bank Trust, N.A., as Escrow Agent, and Lynn Watson, as Securityholder Agent.	10-Q	9/30/2001	
2.8	Agreement and Plan of Reorganization dated as of November 17, 2001 by and among Cypress Semiconductor Corporation, Steelers Acquisition Corporation, Silicon Packets, Inc., and with respect to Article VII only, U.S. Bank Trust, N.A., as Escrow Agent, and Robert C. Marshall, as Securityholder Agent.	10-K	12/30/2001	
2.9	Stock Purchase Agreement dated as of June 21, 2004 by and among Cypress Semiconductor Corporation, in the name and on behalf of Cypress Semiconductor (Belgium) BVBA in Formation, FillFactory NV, certain stockholders of FillFactory NV and with respect to Article VIII and Article X only, U.S. Bank, National Association, as Escrow Agent, and Luc De Mey and IT-Partners NV, as Stockholder Agents.	8-K	8/13/2004	
2.10	Agreement and Plan of Reorganization dated as of June 30, 2004 by and among Cypress Semiconductor Corporation, SP Acquisition Corporation and SunPower Corporation.	10-K	1/2/2005	
2.11	Agreement and Plan of Merger dated as of February 11, 2005 by and among Cypress Semiconductor Corporation, SMaL Camera Technologies, Inc., Summer Acquisition Corporation, and with respect to Articles VII and IX only, U.S. Bank, National Association, as Escrow Agent, and Allan Thygesen, as Securityholder Agent.	8-K	2/15/2005	
2.12	Agreement and Plan of Merger dated November 7, 2005 by and between Cypress Semiconductor Corporation, CMS Acquisition Corporation and Cypress Microsystems, Inc.	8-K	12/8/2005	
2.13	Agreement for the Purchase and Sale of Assets and Amendment No. 1 dated as of February 15, 2006 by and between Cypress Semiconductor Corporation and NetLogic Microsystems, Inc.	8-K	2/21/2006	
2.14	Asset Purchase Agreement, dated February 27, 2007, by and between Sensata Technologies, Inc. and Cypress Semiconductor Corporation.	8-K	3/20/2007	

Exhibit Number	Exhibit Description	Incorporated by References		
		Form	Filing Date/ Period End Date	Filed Herewith
2.15	Agreement for the Purchase and Sale of Assets, dated August 29, 2007, by and between NetLogic Microsystems, Inc. and Cypress Semiconductor Corporation.	8-K	9/5/2007	
3.1	Second Restated Certificate of Incorporation of Cypress Semiconductor Corporation.	10-K	12/31/2000	
3.2	Bylaws, as Amended, of Cypress Semiconductor Corporation.	10-K	12/29/2002	
3.3	Restated Bylaws of Cypress Semiconductor Corporation.	10-Q	4/3/2005	
3.4	Amended and Restated Bylaws of Cypress Semiconductor Corporation.	8-K	6/23/2005	
3.5	Amended and Restated Bylaws of Cypress Semiconductor Corporation.	10-Q	7/3/2005	
3.6	Amended and Restated Bylaws of Cypress Semiconductor Corporation	8-K	3/31/2006	
4.1	Subordinated Indenture dated as of January 15, 2000 between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee.	8-K	3/17/2000	
4.2	Supplemental Trust Indenture dated as of June 15, 2000 between Cypress Semiconductor Corporation and State Street Bank and Trust Company of California, N.A., as Trustee.	8-K	7/11/2000	
4.3	Indenture dated as of June 3, 2003 between Cypress Semiconductor Corporation and U.S. Bank National Association, as Trustee.	S-3	6/30/2003	
4.4	Indenture dated as of March 13, 2007 between Cypress Semiconductor Corporation and U.S. Bank National Association, as Trustee.	S-3	5/17/2007	
4.5	Registration Rights Agreement—1.00% Convertible Senior Notes due September 15, 2009.	10-Q	7/1/2007	
10.1	Form of Indemnification Agreement.	S-1	3/4/1987	
10.2	Cypress Semiconductor Corporation 1994 Stock Option Plan.	10-K	1/2/2000	
10.3	Cypress Semiconductor Corporation Employee Qualified Stock Purchase Plan, Amended and Restated Effective as of May 15, 1998.	S-8	12/10/1998	
10.4	Cypress Semiconductor Corporation 1998 Key Employee Bonus Plan.	10-K	1/3/1999	
10.5	Cypress Semiconductor Corporation 1999 Non-statutory Stock Option Plan.	S-8	4/20/1999	
10.6	Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan I.	S-8	9/6/2002	
10.7	Cypress Semiconductor Corporation Non-Qualified Deferred Compensation Plan II.	S-8	9/6/2002	
10.8	Amendment to 1999 Nonstatutory Stock Option Plan.	10-Q	6/29/2003	
10.9	Lease Agreement dated as of June 27, 2003 between Wachovia Development Corporation and Cypress Semiconductor Corporation.	10-Q	6/29/2003	

Exhibit Number	Exhibit Description	Incorporated by References		
		Form	Filing Date/ Period End Date	Filed Herewith
10.10	Participation Agreement dated as of June 27, 2003 by and among Cypress Semiconductor Corporation, Wachovia Development Corporation and Wachovia Bank, National Association.	10-Q	6/29/2003	
10.11	Call Spread Option Confirmation dated May 29, 2003 among Cypress Semiconductor Corporation, Credit Suisse First Boston International, and Credit Suisse First Boston.	10-Q	6/29/2003	
10.12	Loan and Security Agreement dated as of September 25, 2003 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-Q	9/28/2003	
10.13	Amended and Restated Call Spread Option Confirmation dated as of May 11, 2004 among Cypress Semiconductor Corporation, Credit Suisse First Boston International, and Credit Suisse First Boston.	10-Q	6/27/2004	
10.14	Amendment No. 1 to Loan and Security Agreement dated as of December 13, 2004 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	1/2/2005	
10.15	Cypress Semiconductor Corporation Employee Qualified Stock Purchase Plan, Amended and Restated Effective as of the Offering Period Commencing December 31, 2004	10-K	1/2/2005	
10.16	SMaL Camera Technologies, Inc. 2000 Stock Option and Incentive Plan.	S-8	3/8/2005	
10.17	First Amendment to Certain Operative Agreements dated March 28, 2005 between Wachovia Development Corporation and Cypress Semiconductor Corporation.	10-Q	4/3/2005	
10.18	Cypress Semiconductor Corporation 2006 Key Employee Bonus Plan (KEBP) Summary.	10-K	1/1/2006	
10.19	Cypress Semiconductor Corporation Performance Profit Sharing Plan (PPSP) Summary.	10-K	1/1/2006	
10.20*	Memorandum of Agreement between GNPowder Ltd. Co. and Cypress Manufacturing Ltd.	10-Q	10/1/2006	
10.21	Letter of Agreement between Cypress Semiconductor Corporation and SunPower Corporation.	8-K	11/16/2006	
10.22	Letter of Agreement between Cypress Semiconductor Corporation and PowerLight Corporation.	8-K	11/16/2006	
10.23	Amended Letter of Agreement between Cypress Semiconductor Corporation and PowerLight Corporation.	8-K	1/5/2007	
10.24	Amendment No. 2 to Loan and Security Agreement dated as of December 11, 2006 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.25	Amendment No. 3 to Loan and Security Agreement dated as of December 21, 2006 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.26	Guaranty dated December 12, 2006 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	

Exhibit Number	Exhibit Description	Incorporated by References		
		Form	Filing Date/ Period End Date	Filed Herewith
10.27	Guaranty dated February 1, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-K	12/31/2006	
10.28	Cypress Semiconductor Corporation 1994 Stock Plan, as amended and restated on May 3, 2007.	8-K	5/7/2007	
10.29	Consent and Amendment No. 4 to Loan and Security Agreement dated March 5, 2007 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-Q	4/1/2007	
10.30	Guaranty dated March 19, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	4/1/2007	
10.31	Guaranty dated May 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	7/1/2007	
10.32	Guaranty dated June 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	7/1/2007	
10.33	Cypress Semiconductor Corporation 1994 Stock Plan, as amended and restated on May 11, 2007.	10-Q	7/1/2007	
10.34	Guaranty dated December 15, 2007 by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.			x
10.35	Amendment No. 5 to Loan and Security Agreement dated December 20, 2007 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.			x
21.1	Subsidiaries of Cypress Semiconductor Corporation.			x
23.1	Consent of Independent Registered Public Accounting Firm.			x
24.1	Power of Attorney (reference is made to page 168 of this Annual Report on Form 10-K).			x
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			x
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			x
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			x
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			x

* Confidential treatment has been requested for portions of this exhibit.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	<u>Balance at Beginning of Period</u>	<u>Charges (Releases) to Expenses/ Revenues</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
	(In thousands)			
Allowance for doubtful accounts receivable:				
Year ended December 30, 2007	\$2,263	\$ 916	\$ (636)	\$2,543
Year ended December 31, 2006	\$1,596	\$ 1,869	\$(1,202)	\$2,263
Year ended January 1, 2006	\$ 878	\$ 906	\$ (188)	\$1,596
Allowance for sales returns:				
Year ended December 30, 2007	\$3,024	\$ 7,023	\$(6,606)	\$3,441
Year ended December 31, 2006	\$2,056	\$ 7,384	\$(6,416)	\$3,024
Year ended January 1, 2006	\$2,717	\$ 6,283	\$(6,944)	\$2,056
Allowance for uncollectible loans under the stock purchase assistance plan:				
Year ended December 30, 2007	\$8,345	\$(7,479)	\$ (84)	\$ 782
Year ended December 31, 2006	\$8,469	\$ —	\$ (124)	\$8,345
Year ended January 1, 2006	\$8,469	\$ —	\$ —	\$8,469

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

CYPRESS SEMICONDUCTOR CORPORATION

By: /s/ BRAD W. BUSS

Brad W. Buss

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

Dated: March 2, 2008

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints T.J. Rodgers and Brad W. Buss, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this report, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ T. J. RODGERS</u> T. J. Rodgers	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2008
<u>/s/ BRAD W. BUSS</u> Brad W. Buss	Executive Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2008
<u>/s/ W. STEVE ALBRECHT</u> W. Steve Albrecht	Director	March 2, 2008
<u>/s/ ERIC A. BENHAMOU</u> Eric A. Benhamou	Director	March 2, 2008
<u>/s/ LLOYD A. CARNEY</u> Lloyd A. Carney	Director	March 2, 2008
<u>/s/ JAMES R. LONG</u> James R. Long	Director	March 2, 2008
<u>/s/ J. DANIEL MCCRANIE</u> J. Daniel McCranie	Director	March 2, 2008
<u>/s/ EVERT P. VAN DE VEN</u> Evert P. van de Ven	Director	March 2, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-143042, 333-111381, 333-106667 and 333-95711) and in the Registration Statements on Form S-8 (Nos. 333-131494, 333-123192, 333-119049, 333-108175, 333-104672, 333-101479, 333-99221, 333-91812, 333-91764, 333-81398, 333-71530, 333-71528, 333-66076, 333-66074, 333-65512, 333-59428, 333-58896, 333-57542, 333-48716, 333-48714, 333-48712, 333-44264, 333-32898, 333-93839, 333-93719, 333-79997, 333-76667, 333-76665, 333-68703, 333-52035, 333-24831, 333-00535 and 033-59153) of Cypress Semiconductor Corporation of our report dated March 2, 2008 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California

March 2, 2008

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

I, T.J. Rodgers, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cypress Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 2, 2008

By: /s/ T.J. RODGERS

T.J. Rodgers
President and Chief Executive Officer

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

I, Brad W. Buss, certify that:

1. I have reviewed this Annual Report on Form 10-K of Cypress Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 2, 2008

By: /s/ BRAD W. BUSS

Brad W. Buss
*Executive Vice President, Finance and
Administration and Chief Financial Officer*

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

I, T.J. Rodgers, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended December 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: March 2, 2008

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

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

I, Brad W. Buss, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended December 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Cypress Semiconductor Corporation.

Dated: March 2, 2008

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



March 25, 2008

Dear Stockholder:

You are cordially invited to attend the Cypress Semiconductor Corporation Annual Meeting of Stockholders to be held on Friday, May 9, 2008, at 10:00 a.m. Pacific Daylight Time, at our offices located at 198 Champion Court, San Jose, California 95134. Details regarding the meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement.

We hope you will be able to attend the Annual Meeting to listen to our report on the status of our business, our performance during 2007, our near-term plans, and to ask any relevant questions you may have.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. You may vote in person at the Annual Meeting, by sending in your written proxy, by telephone, or by using the Internet. Your vote by written proxy, by telephone or over the Internet will ensure your representation at the Annual Meeting if you cannot attend in person. Please review the instructions on the enclosed proxy card regarding each of these voting options.

If you would rather receive our annual report and proxy statement electronically, you may sign up for our e-delivery program at www.cypress.com/edeliveryconsent.

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

Very truly yours,

T.J. Rodgers
President and Chief Executive Officer

2008 ANNUAL MEETING OF STOCKHOLDERS
NOTICE OF ANNUAL MEETING AND PROXY STATEMENT
TABLE OF CONTENTS

	Page
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS	1
PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS.....	2
General Information.....	2
Who can attend the Annual Meeting?	2
Who is soliciting my vote?.....	2
Who is entitled to vote?.....	2
What may I vote on?	2
How will voting on any other business be conducted?	3
What is the difference between a registered stockholder and a stockholder holding shares registered in the name of a brokerage firm or a bank?	3
How do I vote?.....	3
What are the word choices for indicating my vote?	3
What shares can be voted and how may I cast my vote for each proposal?	4
How can I vote my shares in person at the Annual Meeting?	4
How can I change my vote or revoke my proxy?.....	4
What does it mean if I get more than one proxy card?.....	4
Who will count the votes?.....	4
What is a “quorum”?	5
What is a broker “discretionary” vote?	5
How will abstentions and non-votes be treated?	5
How much did this proxy solicitation cost and who will pay for the cost?.....	5
How can a stockholder request a copy of Cypress’s Annual Report on Form 10-K filed with the Securities and Exchange Commission for fiscal year 2007?	5
How and when may I submit proposals for consideration at next year’s annual meeting of stockholders or to nominate individuals to serve as directors for Cypress?.....	6
Does Cypress’s Board of Directors have a policy on attendance at the Annual Meeting by directors?.....	7
Where can I find the voting results of the Annual Meeting?.....	7
How can I receive the proxy statement and annual report by electronic delivery?	7
How many copies of the proxy materials will you deliver to stockholders sharing the same address?	7
BOARD STRUCTURE AND COMPENSATION	8
Corporate Governance	8
General.....	8
Determination of Independence	8
Consideration of Director Nominees.....	8
Communications from Stockholders and Other Interested Parties.....	9
Board Structure and Committees	9
The Audit Committee.....	10
The Compensation Committee.....	11
The Nominating and Corporate Governance Committee	12
The Operations Committee	12
Compensation of Directors	13
PROPOSAL ONE: ELECTION OF DIRECTORS	14
PROPOSAL TWO: RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.....	16
REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS	18
PROPOSAL THREE: APPROVAL OF THE AMENDMENT AND RESTATEMENT OF CYPRESS SEMICONDUCTOR CORPORATION’S 1994 STOCK PLAN.....	20
Background.....	20
Summary of the Proposal.....	20
Shares Reserved Under the Amended Plan.....	21

	Page
Summary of the Amended Plan	22
Background and Purpose of the Amended Plan	22
Types of Awards Granted Under the Amended Plan	22
Administration of the Amended Plan	22
No Repricing	22
Awards that Expire or are Forfeited	22
Eligibility to Receive Awards	22
Stock Options	23
Restricted Stock/Restricted Stock Units	23
Automatic Grants to Non-Employee Directors	24
Transfers or Leave of Absence	24
Changes in Capitalization	25
Spin-Off, Split-Off or Similar Transactions	25
Merger or Asset Sale	25
Awards to be Granted to Certain Individuals and Groups	25
Limited Transferability of Awards	26
Federal Tax Aspects	26
Amendment and Termination of the Amended Plan	26
Summary	26
SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS	27
PROPOSAL FOUR: APPROVAL OF CYPRESS'S PERFORMANCE BONUS PLAN	28
Description of the Performance Bonus Plan	28
Bonus Plan Benefits	29
MANAGEMENT	30
Security Ownership of Certain Beneficial Owners and Management	30
COMPENSATION DISCUSSION AND ANALYSIS	33
REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS	46
DIRECTOR COMPENSATION	47
EXECUTIVE COMPENSATION	48
Summary Compensation Table	48
Grants of Plan-Based Awards	50
Grants of Plan-Based Awards (Non-Equity)	52
Outstanding Equity Awards	53
Option Exercises and Stock Vesting	56
Non-Qualified Deferred Compensation	56
OTHER DISCLOSURES	57
Compensation Committee Interlocks and Insider Participation	57
Certain Relationships and Related Transactions	57
Indebtedness of Executive Officers	57
Section 16(a) Beneficial Ownership Reporting Compliance	57
OTHER MATTERS	58
APPENDIX A: AMENDED AND RESTATED 1994 STOCK PLAN	A-1
APPENDIX B: PERFORMANCE BONUS PLAN	B-1

CYPRESS SEMICONDUCTOR CORPORATION
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
MAY 9, 2008

TO ALL CYPRESS STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Cypress Semiconductor Corporation, a Delaware corporation, will be held on:

Date: Friday, May 9, 2008

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

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

Items of Business:

1. The election of seven (7) directors to serve on our Board of Directors for a one-year term, and until their successors are elected.
2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year 2008.
3. The approval of the amendment and restatement of the Company's 1994 Stock Plan.
4. The approval of Cypress's Performance Bonus Plan to maintain tax deductibility to Cypress under Internal Revenue Code Section 162(m).
5. The transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. All stockholders are cordially invited to attend the Annual Meeting in person. Only stockholders of record at the close of business on March 11, 2008, the Record Date, are entitled to receive notice of, and may vote at, the Annual Meeting, or any adjournment or postponement thereof. Any stockholder attending the Annual Meeting and entitled to vote may do so in person even if such stockholder returned a proxy or voted by telephone or over the Internet. We have provided voting instructions in the attached proxy statement on how you can vote your shares before or at the Annual Meeting.

FOR THE BOARD OF DIRECTORS



Brad W. Buss
Corporate Secretary

San Jose, California, March 25, 2008

CYPRESS SEMICONDUCTOR CORPORATION

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION

The Board of Directors of Cypress Semiconductor Corporation (“Cypress” or the “Company”) is furnishing this proxy statement to you in connection with our solicitation of proxies to be used at our Annual Meeting of Stockholders (“Annual Meeting”) to be held on Friday, May 9, 2008, at 10:00 a.m. Pacific Daylight Time, or at any adjournment(s) or postponement(s) thereof. The Annual Meeting has been called for the purposes set forth in this proxy statement and in the Notice of Annual Meeting of Stockholders previously delivered to you. The Annual Meeting will be held at the Company’s principal executive offices located at 198 Champion Court, San Jose, California 95134. The telephone number at that address is (408) 943-2600.

The date of this proxy statement is March 25, 2008, and it was first mailed on or about April 4, 2008, to all stockholders entitled to vote at the Annual Meeting.

The following is important information regarding the Annual Meeting and this proxy statement:

Q: Who can attend the Annual Meeting?

A: All stockholders and holders of proxies for those stockholders and other persons invited by Cypress can attend. If your shares are registered in the name of a brokerage firm or a bank, you must bring to the Annual Meeting a letter from your broker indicating you hold the shares in the name of the broker or banker, or a copy of your proxy card showing that you are the direct or indirect owner of your shares as of March 11, 2008 (the “Record Date”).

Q: Who is soliciting my vote?

A: This solicitation is being made by the Board of Directors of Cypress.

Q: Who is entitled to vote?

A: Only stockholders of Cypress as of the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the Record Date, there were 150,545,865 shares outstanding of Cypress’s common stock, par value \$0.01 per share.

Q: What may I vote on?

A: You may vote on all the items listed in the table below:

PROPOSALS	HOW THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE	
	YES	NO
1. The election of seven (7) directors to serve on our Board of Directors for a one-year term, and until their successors are elected.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year 2008.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The approval of the amendment and restatement of the Company’s 1994 Stock Plan.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The approval of Cypress’s Performance Bonus Plan to maintain tax deductibility to Cypress under Internal Revenue Code Section 162(m).	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5. The transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.		

Q: How will voting on any other business be conducted?

A: We do not know of any business to be considered at this year's Annual Meeting other than the proposals described in this proxy statement. If any other business is properly presented at the Annual Meeting, your signed proxy card gives T.J. Rodgers, Cypress's president and chief executive officer, and Brad W. Buss, corporate secretary, authority to vote on such matters at their discretion.

Q: What is the difference between a registered stockholder and a stockholder holding shares registered in the name of a brokerage firm or a bank?

A: Many stockholders of Cypress hold their shares through a broker, a bank or other nominee, which in each case means they are beneficial owners. A registered stockholder holds his or her shares directly in his or her own name. As summarized below, there are distinctions between shares held of record and those beneficially owned.

Registered stockholder. If your shares are registered directly in your name with Cypress's transfer agent, Computershare, you are considered the registered stockholder with respect to those shares, and these proxy materials are being sent to you directly by Cypress.

Shares registered in the name of a brokerage firm or bank. If your shares are held in a stock brokerage account or by a bank or other nominee (also known as shares registered in "street name"), you are considered the beneficial owner of such shares, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the registered stockholder. As the beneficial owner, you have the right to instruct your broker or nominee how to vote your shares and you are also invited to attend the Annual Meeting. However, since you are not the registered stockholder, you may not vote these shares in person at the Annual Meeting unless you bring a letter from your broker or nominee that identifies you as the direct or indirect owner of your shares and confirms your right to vote your shares. Your broker or nominee will enclose a voting instruction card for you to use to instruct your broker or nominee how to vote your shares.

Q: How do I vote?

A: Depending on how you hold your shares, you may vote your shares in one of the following ways:

- (1) **Registered stockholders:** Stockholders with shares registered directly with Computershare (Cypress's transfer agent) may vote (a) telephonically by calling (800) 690-6903 (within the U.S. and Canada only, toll-free), or (b) via the Internet at www.proxyvote.com. The telephone and Internet voting procedures are designed to authenticate stockholders' identities, to allow stockholders to give their voting instructions and to confirm that stockholders' instructions have been recorded properly. The telephone and Internet voting procedures, which have been made available through Broadridge Financial Solutions, Inc., are consistent with the requirements of applicable law.

If you requested paper copies of your proxy materials, indicate your vote on each proxy card you receive, then sign, date and return it in the prepaid envelope. You may also vote in person at the Annual Meeting.

- (2) **Stockholders with shares registered in the name of a brokerage firm or bank.** A number of brokerage firms and banks offer telephone and Internet voting options. These programs may differ from the program provided to registered stockholders. Check the information forwarded by your bank, broker or other holder of record to see which options are available to you.

Stockholders voting via the Internet should understand that there may be costs associated with electronic access, such as usage charges from telephone companies and Internet access providers, which must be borne by the stockholder.

Q: What are the word choices for indicating my vote?

A: For the election of directors, you may vote "FOR ALL," "WITHHOLD ALL," or "FOR ALL EXCEPT." On your proxy card, a number has been assigned before the name of each director nominee. If you chose to vote "FOR ALL EXCEPT," in the space provided on your proxy card, write the number before the name of the director nominee from whom you wish to withhold your vote.

You may vote “FOR,” “AGAINST,” or “ABSTAIN” with respect to each other matter on the proxy. Shares that are voted “FOR,” “AGAINST,” or “ABSTAIN” are treated as being present at the meeting for purposes of establishing a quorum. These shares are also treated as votes eligible to be cast by the common stock present in person or represented by proxy at the Annual Meeting and “entitled to vote on the subject matter,” referred to as the “Votes Cast,” with respect to such matter.

Q: What shares can be voted and how may I cast my vote for each proposal?

A: All shares owned by you as of the close of business on the Record Date may be voted. You may cast one vote per share of common stock for each proposal except that a stockholder voting for the election of directors has the right to cumulate such stockholder’s votes. This means you can give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of shares you are entitled to vote, or you may distribute your shares among as many candidates as you may select, provided that your votes cannot be cast for more than seven (7) candidates. For example, if you own 100 shares of stock, and there are seven (7) directors to be elected at the Annual Meeting, you may allocate 700 shares (7 times 100) as “FOR” votes among as few or as many directors to be elected at the Annual Meeting as you choose. If you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by so indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the Annual Meeting. If you hold shares beneficially in street name and wish to cumulate your votes, you should contact your broker or nominee.

Q: How can I vote my shares in person at the Annual Meeting?

A: To vote your shares in person at the Annual Meeting, you must bring picture identification and proof of your holding of Cypress stock as of the Record Date. In addition, if you are a registered stockholder, please bring a copy of your proxy card. If your shares are registered in the name of a brokerage firm or bank, your shares may be voted at the Annual Meeting only if you obtain a signed proxy from the broker who holds your shares, giving you the right to vote the shares. Even if you plan to attend the Annual Meeting, Cypress recommends that you vote your shares in advance so that your vote will be counted if you later decide not to attend the Annual Meeting.

Q: How can I change my vote or revoke my proxy?

A: If you are a registered stockholder, you have the right to revoke your proxy and change your vote at any time before the Annual Meeting by (i) notifying our corporate secretary, Brad W. Buss, at 198 Champion Court, San Jose, California 95134, (ii) returning a later-dated proxy card, or (iii) voting again by Internet or telephone as more fully described on your proxy card. You may also revoke your proxy and change your vote by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not cause your previously granted proxy to be revoked unless you specifically so request or vote again at the Annual Meeting.

If your shares are held by a broker or other nominee, you may change your vote by submitting new voting instructions to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the Annual Meeting and voting in person.

Q: What does it mean if I get more than one proxy card?

A: It means you hold shares in more than one registered account. You must vote all of your proxy cards in one of the manners described above (under “How do I vote?”) to ensure that all your shares are voted.

Q: Who will count the votes?

A: Representatives of Investor Communication Services, a division of Broadridge Financial Solutions, Inc., our mailing agent and tabulation service, will count the votes and Brad W. Buss, our corporate secretary, will act as the inspector of elections. Cypress believes that the procedures to be used by the inspector of elections to count the votes are consistent with Delaware law concerning the voting of shares, determination of a quorum and the vote required to take stockholder action.

Q: What is a “quorum”?

A: A “quorum” is the minimum number of shares required to be present or represented in order to hold an Annual Meeting, and to take a valid action or transact business at the Annual Meeting. There must be a quorum for the Annual Meeting to be held and action to be validly taken. The quorum requirement for holding our Annual Meeting and transacting business is a majority of the issued and outstanding shares entitled to vote at the Annual Meeting. They may be present in person at the Annual Meeting or represented by proxy. If you submit a properly executed proxy card, or if you attend the Annual Meeting (even if you abstain from voting or withhold your vote with respect to any proposal), you will be considered present for purposes of establishing the quorum and for purposes of determining the voting power present at the Annual Meeting.

Q: What is a broker “discretionary” vote?

A: Under the rules of the New York Stock Exchange (“NYSE”), if you hold your shares through a broker or other nominee, your broker or nominee is permitted to vote your shares on the election of our directors and the ratification of our independent registered public accounting firm in its discretion if it has transmitted the proxy materials to you and has not received voting instructions from you on how to vote your shares before the deadline set by your broker.

Q: How will abstentions and non-votes be treated?

A: Abstentions, which are marked as “ABSTAIN” on your proxy card, will be counted for purposes of establishing a quorum for the transaction of business at the Annual Meeting and the total number of votes cast with respect to a particular matter. Except for broker non-votes that are described below, abstentions are included in the total number of votes cast for a particular proposal and a majority vote is needed to approve any proposal other than the election of directors, so abstentions have the effect of a vote “AGAINST” a proposal.

If a broker indicates on a proxy that it does not have discretionary authority as to certain shares to vote on a particular matter (“broker non-votes”), those shares will be considered present for purposes of a quorum but will not be considered present for purposes of determining voting power on that matter. Broker non-votes with respect to proposals set forth in this proxy statement will not be considered votes cast and, accordingly, will not affect the determination as to whether the requisite majority of votes cast has been obtained with respect to a particular matter.

Q: How much did this proxy solicitation cost and who will pay for the cost?

A: The cost of soliciting your vote in connection with this proxy statement has been, or will be, borne by Cypress. We have retained Georgeson Shareholder Communications, Inc. to assist with the solicitation of proxies for a fee not to exceed \$7,500, plus reimbursement of out-of-pocket expenses. Georgeson Shareholder Communications, Inc. may solicit proxies by mail, telephone, in person or via other electronic communications. We have also requested that banks, brokers and other custodians, nominees and fiduciaries send these proxy statement materials to the beneficial owners of our common stock they represent and secure their instructions as to the voting of such shares. We may reimburse such banks, brokers and other custodians, nominees and fiduciaries representing beneficial owners of our common stock for their expenses in forwarding solicitation material to such beneficial owners. Certain of our directors, officers or employees may also solicit proxies in person, by telephone, or by electronic communications, but they will not receive any additional compensation for doing so.

Q: How can a stockholder request a copy of Cypress’s Annual Report on Form 10-K filed with the Securities and Exchange Commission for fiscal year 2007?

A: A copy of Cypress’s Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission (“SEC”) on March 3, 2008, has been mailed with this proxy statement. A stockholder may also send a written request for a copy of our Annual Report on Form 10-K to Brad W. Buss, Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. Upon receipt of such request by a stockholder, we will provide a copy of our Annual Report on Form 10-K without charge, including the financial statements and the financial statement schedules, required to be filed with the SEC pursuant to Rule 13a-1 of the Securities Exchange Act of 1934 for our fiscal year 2007. Our Annual Report on Form 10-K for the fiscal year ending December 30, 2007, is also available at our web site at: <http://www.cypress.com/investors>.

Q: How and when may I submit proposals for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors for Cypress?

A: You may submit your proposals, including director nominations, for consideration at future annual meetings of stockholders by following the directions set forth below:

Stockholder Proposals: For stockholder proposals to be considered for inclusion in our 2009 proxy statement, the written proposal must be received by our corporate secretary at our corporate offices at 198 Champion Court, San Jose, California 95134, no later than November 24, 2008. In addition, the Company's bylaws establish an advance notice procedure for stockholders who wish to present certain matters before an annual meeting of the stockholders. Any stockholder who wants to make a proposal or director nomination that is not to be included in our proxy statement for the 2009 annual meeting of stockholders must deliver written notice to be received by our corporate secretary at our corporate offices at 198 Champion Court, San Jose, California 95134, no earlier than December 1, 2008 and no later than December 28, 2008. In the event the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's Annual Meeting, the deadline for inclusion of stockholder proposals in our proxy statement is instead a reasonable time before Cypress begins to print and mail its proxy materials, and the deadline for submitting stockholder proposals not to be included in our proxy statement is no later than the close of business on the latter of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. All stockholder proposals will also need to comply with SEC regulations, such as Rule 14a-8 of the 1934 Securities Exchange Act regarding the inclusion of stockholder proposals in any company-sponsored proxy material.

Nomination of Director Candidates: A stockholder may propose director candidates for consideration by submitting them to the Board's Nominating and Corporate Governance Committee. Such proposals should be directed to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. In addition, the stockholder must give notice to the corporate secretary, and such notice must be received within the time period described above under "Stockholder Proposals." Any such proposal should include the following:

- (1) nominee's name, age, nationality, business and residential address;
- (2) nominee's principal occupation and employment;
- (3) the class and number of shares of stock beneficially owned or of record by nominee; and
- (4) any other information required to be disclosed in the proxy statement.

The stockholder's notice must also include the following information for the stockholder giving the notice and the beneficial holder, if any, on whose behalf the nomination or proposal is being made:

- (1) their names and addresses;
- (2) the class and number of shares of stock beneficially owned and of record by them;
- (3) a description of any arrangements or understandings between them and each proposed nominee and any other persons (including their names) pursuant to which the nominations are being made;
- (4) a representation that they intend to appear in person or by proxy at the annual meeting to nominate the person named in the notice;
- (5) a representation as to whether they are part of a group that intends to deliver a proxy statement or solicit proxies in support of the nomination; and
- (6) any other information that would be required to be included in the proxy statement.

If such stockholder director nomination is made in accordance with the instructions set forth above, the Nominating and Corporate Governance Committee of the Board of Directors will apply the same criteria in evaluating the nominee as it would any other board nominee candidate and will recommend to the Board of Directors whether or not the stockholder nominee should be included as a candidate for election in our proxy statement. The nominee and nominating stockholder must be willing to provide any information reasonably requested by the Nominating and Corporate Governance Committee in connection with its evaluation. The Board of Directors shall make the final determination whether or not a nominee will be included in the proxy statement and card for election (see "Consideration of Director Nominees" under the Board Structure and Compensation section of this proxy statement).

Q: Does Cypress's Board of Directors have a policy on attendance at the Annual Meeting by directors?

A: Cypress does not have a formal policy on director attendance at annual meetings, although directors are encouraged to attend. All of our directors were present at the 2007 Annual Meeting. We expect that the majority of our directors will attend this year's Annual Meeting.

Q: Where can I find the voting results of the Annual Meeting?

A: Cypress will announce preliminary voting results at the 2008 Annual Meeting and publish final results in Cypress's quarterly report on Form 10-Q for the second quarter of fiscal year 2008.

Q: How can I receive the proxy statement and annual report by electronic delivery?

A: You may sign up for Cypress's e-delivery program at www.cypress.com/edeliveryconsent. When you sign up for our electronic delivery program, you will be notified by electronic mail whenever our annual report or proxy statement is available for viewing on the Internet. Your enrollment in the e-delivery program will remain in effect as long as your account remains active or you cancel your enrollment.

Q: How many copies of the proxy materials will you deliver to stockholders sharing the same address?

A: To reduce the expenses of delivering duplicate proxy materials, we are taking advantage of the SEC's "householding" rules that permit us to deliver only one set of proxy materials to stockholders who share an address, unless otherwise requested by the stockholders. If you have not enrolled in our electronic delivery program, share an address with another stockholder and have received only one set of proxy materials, you may request a separate copy of these materials at no cost to you by writing to Brad W. Buss, Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. For future annual meetings, you may request separate voting materials, or request that we send only one set of proxy materials to you if you are receiving multiple copies, by writing to Investor Relations at the address given above.

BOARD STRUCTURE AND COMPENSATION

CORPORATE GOVERNANCE

General

We have long believed that good corporate governance is important to ensure that Cypress is managed for the long-term benefit of its stockholders. During the past year, we have continued to review our corporate governance policies and practices to ensure they comply with the requirements or suggestions of various authorities in corporate governance and the best practices of other public companies. In 2007, we enhanced our Insider Trading Policy and introduced a 10b5-1 Selling Plan. We have also continued to review the rules of the Securities and Exchange Commission (“SEC”) and the listing standards of the New York Stock Exchange (“NYSE”) to ensure that our corporate governance policies and practices are compliant in particular with the new SEC disclosure rules. Our Corporate Governance Guidelines are available at http://media.corporate-ir.net/media_files/nys/cy/governance/guidelines2.pdf. You may also request a copy in print by writing to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

Our Code of Business Conduct and Ethics is available on our website at http://media.corporate-ir.net/media_files/nys/cy/governance/conduct.pdf. Our Code of Business Conduct and Ethics covers topics such as financial reporting, conflict of interest, insider trading, compliance with laws, rules and regulations, and other Company policies. You may also request a copy in print by writing to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

On May 17, 2007, we submitted our 303A Annual CEO Certification to the NYSE.

Determination of Independence

In order to make a determination of independence of a director as required by our Corporate Governance Guidelines and the rules of the NYSE and the SEC, the Board of Directors (the “Board”) determines whether a director or a director nominee has a material relationship with Cypress (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with Cypress). Each director or director nominee completed a questionnaire, with questions tailored to the rules of the NYSE, as well as the SEC requirements for independence. On the basis of the questionnaires completed and returned by each director, the Board determined that each of Messrs. Albrecht, Benhamou, Carney, Long, McCranie, and van de Ven is independent as determined under our Corporate Governance Guidelines, the rules of the NYSE and the SEC. The Board determined that Mr. T.J. Rodgers, our president and chief executive officer, has a material relationship with Cypress by virtue of his employment and position at Cypress and, therefore, is not independent. Apart from Mr. Rodgers, no other director has a relationship with Cypress other than through his membership on the Board and its committees.

Consideration of Director Nominees

The Nominating and Corporate Governance Committee regularly assesses the appropriate size of the Board and whether any vacancies are expected due to retirement or otherwise. The Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating nominees for directorships, including requests to Board members and others for recommendations.

Stockholders may recommend, with timely notice, individuals for the Nominating and Corporate Governance Committee to consider as potential director candidates by submitting their names and background to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. The Nominating and Corporate Governance Committee will consider a recommendation only if appropriate biographical information and background material are provided on a timely basis (see “How and when may I submit proposals for consideration at next year’s annual meeting of stockholders or to nominate individuals to serve as directors for Cypress?”).

The qualifications of recommended director candidates will be reviewed by the Nominating and Corporate Governance Committee in accordance with the criteria set forth in our Corporate Governance Guidelines and SEC and NYSE rules. These criteria include the candidate's skills, attributes, integrity, experience, commitment, diligence, conflicts of interest and the ability to act in the interest of all stockholders. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. Cypress believes that the backgrounds and qualifications of our directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow our Board to fulfill its responsibilities.

The process followed by the Nominating and Corporate Governance Committee to identify and evaluate nominees includes meeting from time to time to evaluate biographical information and background material relating to potential candidates and if appropriate, conducting interviews of selected candidates by members of the Nominating and Corporate Governance Committee and the Board.

Assuming that appropriate biographical and background material are provided for candidates recommended by stockholders, the Nominating and Corporate Governance Committee will evaluate nominees by following substantially the same process, and applying substantially the same criteria, as for candidates submitted by Board members.

The Board makes the final determination whether or not a stockholder-recommended candidate will be included as a director nominee for election in accordance with the criteria set forth in our Corporate Governance Guidelines. If the Board decides to nominate a stockholder-recommended candidate and recommends his or her election as a director by the stockholders, the name of the nominee will be included in Cypress's proxy statement and proxy card for the stockholders meeting at which his or her election is recommended.

Communications from Stockholders and Other Interested Parties

The Board will give appropriate attention to written communication on valid issues that are submitted by stockholders and other interested parties, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters, the chairman of our Board of Directors, with the assistance of the corporate secretary and internal legal counsel, will (1) be primarily responsible for monitoring communications from stockholders and other interested parties, and (2) provide copies or summaries of such communications to the other directors as the chairman considers appropriate. Communications will be forwarded to all directors if they relate to substantive matters and include suggestions or comments that the chairman of our Board of Directors considers to be important for the directors to know.

Stockholders and other interested parties who wish to send communications on any topic to the Board may do so by sending an email to CYBOD@cypress.com or by addressing such communication to the Chairman of the Board of Directors, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California, 95134.

BOARD STRUCTURE AND COMMITTEES

Eric A. Benhamou serves as Chairman of our Board of Directors. The Board held a total of seven (7) meetings during our 2007 fiscal year, which ended on December 30, 2007. In 2007 the Board also set up special committees to handle specific tasks. The special committees met four (4) times in fiscal year 2007. Every director attended at least 75% of the number of Board meetings that they were required to attend, and at least 75% of the meetings of the committees of the Board on which the director served. Our "non-management" (who are all independent) directors met four (4) times in executive sessions during regularly scheduled board meetings in the 2007 fiscal year. Mr. Benhamou presided over all executive sessions of our directors, as defined under the rules of the NYSE.

Interested parties are able to make their concerns known to the non-management independent directors by electronic mail to CYBOD@cypress.com, or in writing addressed to the Chairman of the Board of Directors, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134.

The Board of Directors has an Audit Committee, a Compensation Committee, a Nominating and Corporate Governance Committee, and an Operations Committee. The membership and functions of each committee in 2007 are described in the table below:

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Operations Committee
W. Steve Albrecht	Chairman		Member ⁽¹⁾	
Eric A. Benhamou	Member	Chairman		
Lloyd Carney	Member	Member		
James R. Long		Member	Chairman	
J. Daniel McCranie	Member			Member
Evert van de Ven			Member	Member
T.J. Rodgers				

(1) Mr. Albrecht became a member of the Nominating and Corporate Governance Committee in February 2008.

The Audit Committee

The Audit Committee of our Board of Directors assists the Board in fulfilling its responsibilities with respect to its oversight of:

- Cypress's accounting and financial reporting processes and the audit of Cypress's financial statements;
- the integrity of Cypress's financial statements;
- Cypress's internal controls and the audit of management's assessment of the effectiveness of internal control over financial reporting;
- Cypress's compliance with legal and regulatory requirements;
- the independent registered public accounting firm's appointment, qualifications and independence; and
- the performance of Cypress's internal audit function.

The Audit Committee operates under a written charter adopted by our Board of Directors, and was established in accordance with Exchange Act Section 3(a)(58)(A). The charter of the Audit Committee is available on our web site at http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=CY&script=2210&item_id=489. You may also request a copy in print by writing to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

The Board of Directors has determined that all the members of the Audit Committee are independent as independence is defined in NYSE Rule 303A.02.

The Audit Committee consists of Messrs. Albrecht, Benhamou, Carney, and McCranie, and met eight (8) times in fiscal year 2007. The Board of Directors determined that each member of the Audit Committee is financially literate and has accounting and/or related financial management expertise required under the rules of the NYSE.

Our Audit Committee charter limits to three (3) the number of audit committees on which a Cypress Audit Committee member may serve without the review and approval of our Board of Directors. Mr. Albrecht currently serves on the audit committees of four (4) public companies, including Cypress and SunPower Corporation. As of December 30, 2007, Cypress held approximately 56% of SunPower's outstanding capital stock, 51% of SunPower's outstanding capital stock on a fully diluted basis and 90% on a voting right basis. Our Board of Directors has discussed with Mr. Albrecht his audit committee membership and evaluated the existing demands on his time. Based on these discussions, our Board concluded that such simultaneous service does not impair Mr. Albrecht's ability to

continue to effectively serve on our Audit Committee. Our Board designated Mr. Albrecht as the “audit committee financial expert” in accordance with the requirements of the SEC and the NYSE.

The responsibilities of our Audit Committee and its activities during fiscal year 2007 are described in the Report of the Audit Committee contained in this proxy statement.

In discharging its duties, the Audit Committee:

- reviews and approves the scope of the annual audit and the independent public accountants’ fees;
- assists the Board in the oversight of the Company’s compliance with legal and regulatory requirements;
- meets independently with our independent registered public accounting firm, internal auditors, and our senior management;
- oversees and reviews the general scope of our accounting, financial reporting, annual audit and matters relating to internal control systems, as well as the results of the annual audit and review of interim financial statements, auditor performance, qualifications and independence issues, and the adequacy of the Audit Committee charter;
- prepares an Audit Committee report as required by the SEC to be included in the Company’s annual proxy statement;
- pre-approves all significant non-audit services provided by the independent registered public accounting firm; and
- reviews SEC filings, earnings releases and other forms of significant investor communications.

The Compensation Committee

The Compensation Committee consists of Messrs. Benhamou, Carney, and Long. The Board has determined that the members of the Compensation Committee are independent as defined under the rules of the NYSE. The Compensation Committee assists the Board with discharging its duties with respect to the formulation, implementation, review and modification of the compensation of our directors, officers and senior executives, and the preparation of the annual report on executive compensation for inclusion in our proxy statement.

The Compensation Committee, through delegation by the Board of Directors, has overall responsibility for the following:

- establishing the specific performance objectives for our chief executive officer and subsequently evaluating his compensation based on achievement of those objectives;
- approval of performance objectives for our executive officers;
- formulating, implementing, reviewing, and modifying the compensation of the Company’s directors and executive officers;
- recommending to the Board for approval the Company’s compensation plans, policies and programs;
- reviewing and approving the Company’s Compensation Discussion and Analysis (“CD&A”) for inclusion in the proxy statement;
- reviewing and approving the annual merit and stock budgets for focal salary increases and equity grant awards for all eligible employees; and
- reviewing the annual benefit changes made by the Company with respect to its employees.

In discharging its duties, the Compensation Committee has retained the services of various compensation consultants in order to have independent, expert perspectives on matters related to executive compensation, Company and executive performance, equity plans and other issues. The Compensation Committee has the sole authority to determine the scope of services for these consultants and may terminate the consultants’ services at any time. The fees of these consultants are paid by the Company.

No officer of the Company was present during discussions or deliberations regarding that officer's own compensation. Additionally, the Compensation Committee met in executive session with its independent consultant to discuss various matters and formulate certain final decisions, including those regarding the performance and compensation of the chief executive officer.

The Compensation Committee held seven (7) meetings during our 2007 fiscal year. The Report of the Compensation Committee is contained in this proxy statement. The charter for our Compensation Committee is posted on our web site at http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=CY&script=2210&item_id=490. You may also request a copy in print by writing to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

The Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of Messrs. Long, Albrecht and van de Ven. The Board has determined that the members of the Committee are independent as defined under the rules of the NYSE. The purpose of the Nominating and Corporate Governance Committee is to:

- identify and evaluate individuals qualified to become board members;
- recommend to the Board the persons to be nominated by the Board for election as directors at the annual meeting of stockholders, including any nomination of qualified individuals properly submitted by stockholders of the Company; and
- develop, maintain and recommend to the Board a set of corporate governance principles and oversee the evaluation of the Board.

The Nominating and Corporate Governance Committee is authorized to retain advisers and consultants and to compensate them for their services. The Nominating and Corporate Governance Committee did not retain any such advisers or consultants during fiscal year 2007.

The Nominating and Corporate Governance Committee held four (4) meetings during fiscal year 2007. The charter for our Nominating and Corporate Governance Committee is posted on our web site at http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=CY&script=2210&item_id=491. You may also request a copy in print by writing to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

The Operations Committee

The Operations Committee consists of Messrs. McCranie and van de Ven. The purpose of the Operations Committee is to:

- review strategic proposals and provide advice and counsel to Cypress regarding business operations; and
- present to the Board an independent assessment of Cypress's business operations and practices.

To discharge their responsibilities, members of the Operations Committee attend various quarterly operations reviews and provide advice and counsel to the Company's management. As part of their committee responsibilities, Mr. van de Ven serves as an advisor to our Manufacturing Advisory Board ("MAB") and Mr. McCranie serves as an advisor to our Sales & Marketing Board ("S&MB").

The charter for our Operations Committee is posted on our web site at http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=CY&script=2210&item_id=6028. You may also request a copy in print by writing to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

COMPENSATION OF DIRECTORS

We pay an annual retainer fee of \$45,000 to each non-management member of our Board. We also pay an additional \$2,500 to the chairman of our Audit Committee quarterly, and a quarterly payment of \$1,250 to other members of the Audit Committee. Each of the chairmen of the Compensation Committee and the Nominating and Corporate Governance Committee is paid an additional \$1,875 quarterly. No additional payment is made to other members of the Compensation Committee or the Nominating and Corporate Governance Committee. The members of our Operations Committee are paid \$2,500 for each business operations or advisory board meeting they attend. In addition to the compensation described above, we pay the travel and other meeting-related expenses of each of our non-management directors.

In addition to the cash remuneration set forth above, the 1994 Stock Plan, as amended, provides for the automatic grant of non-statutory options to our non-management directors on the date of acceptance or their appointment to the Board, and stock awards to our incumbent directors. Upon their initial appointment to the Board, each non-management director is granted an option to purchase 80,000 shares of common stock. The option awards vest monthly over a period of five (5) years from the date of grant. The exercise price of options granted under the 1994 Stock Plan is the fair market value of our common stock on the date of grant, which is the date on which such individual first becomes a non-employee director.

Commencing in May 2007, incumbent non-management directors who have served since the last annual stockholders meeting and are re-elected at the Company's next annual meeting automatically receive an additional 10,000 restricted stock units as detailed in our 1994 Stock Plan. Restricted stock units vest at 20% annually on the day immediately prior to the Company's regularly scheduled annual stockholders meeting. If the re-elected incumbent director was appointed to the Board after the last annual stockholders meeting, then the additional 10,000 restricted stock unit grant is pro-rated based on the number of months from the date of his initial grant to the date of his re-election. No other equity grants are awarded to members of our Board.

PROPOSAL ONE

ELECTION OF DIRECTORS

A board of seven (7) directors is to be elected at the 2008 Annual Meeting. The proxies cannot be voted for greater than the number of nominees named. All directors are elected annually and serve a one-year term until the next annual meeting where they or their successors are elected. If you submit a signed proxy card that does not specify how you wish to vote, your shares will be voted for the seven (7) director nominees named below, each of whom is presently serving as one of our directors. If any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee designated by the present Board of Directors to fill the vacancy. We do not expect any nominee will be unable or will decline to serve as a director. There are no arrangements or understandings between any nominee and any other person pursuant to which he was selected as a director or a nominee. As of the time of filing of this proxy statement, there were no director candidates recommended by stockholders or stockholder groups beneficially owning 5% of voting common stock for at least one (1) year.

Nominees for Election to Our Board of Directors

Name of Nominee	Age	Principal Occupation	Director Since
T.J. Rodgers	60	President and Chief Executive Officer of Cypress	1982
W. Steve Albrecht	61	Associate Dean and Andersen Alumni Professor of Accounting, Marriott School of Management, Brigham Young University	2003
Eric A. Benhamou	52	Chairman of our Board, Chairman of the Board of 3Com Corporation	1993
Lloyd Carney	46	Chief Executive Officer, Xsigo Systems	2005
James R. Long	65	Former Executive Vice President of Nortel	2000
J. Daniel McCranie	64	Chairman of the Board of ON Semiconductor and Virage Logic	2005
Evert van de Ven	58	Former Executive Vice President and Chief Technical Officer of Novellus Systems	2005

Except as set forth below, each of the nominees has been engaged in his principal occupation described above during the past five (5) years. There are no family relationships among our directors and executive officers.

T.J. Rodgers is a co-founder of Cypress and has been the Company's president and chief executive officer and a member of our Board of Directors since 1982. Mr. Rodgers also serves as a director of Bloom Energy (formerly Ion America), Silicon Light Machines, and SunPower Corporation. Mr. Rodgers is also a member of the board of trustees at Dartmouth College.

W. Steve Albrecht is the Associate Dean and Andersen Alumni Professor of Accounting at the Marriott School of Management at Brigham Young University ("BYU"). Mr. Albrecht, a certified public accountant, certified internal auditor, and certified fraud examiner, joined BYU in 1977 after teaching at Stanford University and the University of Illinois. Prior to BYU, he worked as an accountant for Deloitte & Touche. Mr. Albrecht is the past president of the American Accounting Association and the Association of Certified Fraud Examiners. He currently serves on the board of directors of Red Hat, SkyWest Airlines, and SunPower Corporation. He is currently a trustee of the Financial Accounting Foundation that provides oversight to Financial Accounting Standards Board ("FASB") and Governmental Accounting Standards Board ("GASB").

Eric A. Benhamou is the chairman of our Board of Directors and the chairman of the board of directors of 3Com Corporation. He served as chief executive officer of Palm, Inc. from October 2001 until October 2003 and chairman until October 2007, and was chief executive officer of 3Com from 1990 until the end of 2000. Mr. Benhamou co-founded Bridge Communications, an early networking pioneer, and was vice president of engineering until its merger with 3Com in 1987. He is also a member of the board of directors of RealNetworks, Inc., Silicon Valley Bank, and Voltaire, Inc. He serves on the executive committee of TechNet and the Computer Science and Technology Board ("CSTB"). He is the chief executive officer of Benhamou Global Ventures, an investment firm he established.

Lloyd Carney is the chief executive officer of Xsigo Systems, a venture funded IO Virtualization Platform. Prior to joining Xsigo, he was the general manager of IBM's NetCool Division. Prior to his employment at IBM, he was the chairman and chief executive officer of Micromuse, before it was acquired by IBM in 2006. Prior to Micromuse, Mr. Carney was the chief operations officer and executive vice president at Juniper Networks where he oversaw the engineering, product management and manufacturing divisions. Prior to joining Juniper Networks, Mr. Carney was the president of the Core IP Division, the Wireless Internet Division and the Enterprise Data Division at Nortel Networks.

James R. Long has been an independent business consultant since 1999. He retired in 1999 as executive vice president of Nortel Networks Corporation and president of Nortel Enterprise Solutions. Between 1991 and 1999, Mr. Long was the president of various business units at Nortel Networks, including Asia Pacific, Nortel World Trade, and the Enterprise Solutions group. Prior to joining Nortel, Mr. Long held a variety of senior executive positions with IBM Corporation and Rolm Company, an IBM and Siemens joint venture. He currently serves on the board of directors of 3Com Corporation and the Polynesian Cultural Center.

J. Daniel McCranie currently serves as chairman of the board of directors of ON Semiconductor and Virage Logic. He is also a member of the board of directors of Actel Corporation. Mr. McCranie served as Cypress's executive vice president of sales and marketing from 1993-2001. Prior to his initial tenure with Cypress, Mr. McCranie was the chairman of the board, president and chief executive officer of SEEQ Technology, and held positions of increasing responsibility in management, engineering, and sales and marketing at Harris Corporation, Advanced Micro Devices, American Microsystems and Philips Corporation.

Evert van de Ven has more than thirty (30) years of experience in the semiconductor industry, including engineering and advisory positions at Philips Semiconductor, Matsushita Electronics Corporation and Applied Materials. Mr. van de Ven retired as executive vice president and chief technology officer of Novellus Systems in 1995. Mr. van de Ven previously served on the board of directors at Matrix Integrated Systems.

Required Vote

The seven (7) nominees receiving the highest number of affirmative votes of the shares present or represented and entitled to vote shall be elected as directors to serve until our next annual meeting, where they or their successors will be elected. Votes withheld from this proposal are counted for purposes of determining the presence or absence of a quorum for the transaction of business, but have no further legal effect under Delaware law.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION TO THE BOARD OF EACH OF THE NOMINEES PROPOSED ABOVE.

PROPOSAL TWO

RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors, upon recommendation of the Audit Committee, has reappointed the firm of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 28, 2008, subject to ratification by our stockholders.

PricewaterhouseCoopers LLP has served as our independent registered public accounting firm since 1982. A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting and will have an opportunity to make a statement if he or she desires to do so, and will be available to respond to questions.

Stockholder ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm is not required by our bylaws or other applicable legal requirements. However, the Board is submitting the selection of PricewaterhouseCoopers LLP to the stockholders for ratification as a matter of good corporate practice.

If the stockholders fail to ratify the selection of our independent registered public accounting firm, the Audit Committee and the Board will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board, at its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of Cypress and its stockholders.

All fees billed to Cypress and SunPower Corporation by PricewaterhouseCoopers LLP for fiscal years 2007 and 2006 were pre-approved by the Audit Committee and were as follows:

Services	2007	2006
Audit Fees	\$4,576,000	\$3,700,000
Audit-Related Fees	\$528,000	\$359,000
Tax Fees	\$1,775,000	\$1,127,000
Total	\$6,879,000	\$5,186,000

Breakdown of Fees for 2007

Services	Cypress	SunPower	Total
Audit Fees	\$2,597,000	\$1,979,000	\$4,576,000
Audit-Related Fees	\$234,000	\$294,000	\$528,000
Tax Fees	\$1,592,000	\$183,000	\$1,775,000

Breakdown of Fees for 2006

Services	Cypress	SunPower	Total
Audit Fees	\$2,482,000	\$1,218,000	\$3,700,000
Audit-Related Fees	\$182,000	\$177,000	\$359,000
Tax Fees	\$1,026,000	\$101,000	\$1,127,000

Audit Fees: Includes fees associated with the annual audit of financial statements and internal control over financial reporting in compliance with regulatory requirements under the Sarbanes-Oxley Act, review of our quarterly reports on Form 10-Q, annual report on Form 10-K and periodic reports on Form 8-K, consents issued in connection with our Form S-8 filings, assistance and review with other documents we filed with the SEC, and statutory audits required internationally. In addition, audit fees for 2006 included services rendered in connection with SunPower Corporation's secondary public offering in June 2006.

Audit-Related Fees: Audit-related services principally include employee benefit plan audits, internal control consulting, and accounting consultations not associated with the audit.

Tax Fees: Includes fees for tax compliance (tax return preparation assistance and expatriate tax services), general tax planning, tax-related services on acquisition, and international tax consulting.

All Other Fees: Cypress was not billed any other fees by PricewaterhouseCoopers LLP.

Audit Committee Pre-Approval Policy

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the Company's independent registered public accounting firm. With the exception of certain de-minimus amounts, unless the specific service has been previously pre-approved with respect to that fiscal year, the Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform such services for Cypress.

Required Vote

The affirmative vote of the holders of a majority of the shares represented and entitled to vote at the meeting will be required to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 28, 2008.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSE-COOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of Cypress's Board of Directors serves as the representative of the Board of Directors with respect to its oversight of:

- Cypress's accounting and financial reporting processes and the audit of Cypress's financial statements;
- the integrity of Cypress's financial statements;
- Cypress's internal controls and the audit of management's assessment of the effectiveness of internal control over financial reporting;
- Cypress's compliance with legal and regulatory requirements;
- the independent registered public accounting firm's appointment, qualifications and independence; and
- the performance of Cypress's internal audit function.

The Audit Committee also reviews the performance of Cypress's independent registered public accounting firm, PricewaterhouseCoopers LLP, in the annual audit of financial statements and internal control over financial reporting and in assignments unrelated to the audit, and reviews the independent registered public accounting firm's fees.

The Audit Committee provides the Board such information and materials as it may deem necessary to make the Board aware of financial matters requiring the attention of the Board. The Audit Committee reviews the Company's financial disclosures and meets privately, outside the presence of our management, with our independent registered public accounting firm and our internal auditors to discuss our internal accounting control policies and procedures. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in our Annual Report on Form 10-K for our fiscal year ended December 30, 2007, with management including a discussion of the quality and substance of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. In addition, the Audit Committee reviewed the results of management's assessment of the effectiveness of Cypress's internal control over financial reporting as of December 30, 2007. The Audit Committee reports on these meetings to our Board of Directors.

The charter of the Audit Committee is available at our website at:

http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=CY&script=2210&item_id=489

Cypress's management has primary responsibility for preparing Cypress's financial statements and for its financial reporting process. In addition, management is responsible for establishing and maintaining adequate internal control over financial reporting. Cypress's independent registered public accounting firm is responsible for expressing an opinion on the conformity of Cypress's financial statements to generally accepted accounting principles and on the effectiveness of Cypress's internal control over financial reporting.

The Audit Committee hereby reports as follows:

(1) The Audit Committee has reviewed and discussed the audited financial statements for fiscal year 2007 with Cypress's management.

(2) The Audit Committee has discussed with PricewaterhouseCoopers LLP, the independent registered public accounting firm for Cypress, the matters required to be discussed by the Statement on Audit Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

(3) The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP for Cypress required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*), as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and has discussed with PricewaterhouseCoopers LLP its independence.

Based on the review and discussion referred to in items (1) through (3) above, the Audit Committee recommended to Cypress's Board of Directors and the Board approved, that the Company's audited financial statements be included in Cypress's Annual Report on Form 10-K for the fiscal year ended December 30, 2007, for filing with the SEC. The Audit Committee also recommended the reappointment of PricewaterhouseCoopers LLP as Cypress's independent registered public accounting firm for fiscal year 2008.

Each member of the Audit Committee is independent as defined under the listing standards of the NYSE.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

W. Steve Albrecht, Chairman
Eric A. Benhamou
Lloyd Carney
J. Daniel McCranie

PROPOSAL THREE

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF CYPRESS SEMICONDUCTOR CORPORATION'S 1994 STOCK PLAN

Background

Our 1994 Stock Plan (the "Plan") allows us to grant stock options and restricted stock (including restricted stock units) to employees, officers and directors. As of March 1, 2008, the Plan had approximately 4.5 million shares available for grant.

Summary of the Proposal

General. Our Board of Directors approved the amendment and restatement of the Plan (as amended and restated, the "Amended Plan") on March 24, 2008, subject to approval by the stockholders at the Annual Meeting. Our named executive officers and directors have an interest in this proposal. The Amended Plan includes the following features:

- increases the permissible metrics our Compensation Committee may use in structuring equity compensation to qualify as "performance-based compensation" under Internal Revenue Code Section 162(m); and
- provides our Board of Directors with the discretionary authority to appropriately adjust outstanding equity awards or take other appropriate actions in the event of a spin-off, split-off or similar transaction.

We are also seeking approval of the material terms of the Amended Plan for purposes of complying with Internal Revenue Code Section 162(m).

Critical Element of our Compensation Policy. We believe that our employees are our most valuable asset. The approval of the Amended Plan and the resulting ability to continue with our broad-based equity compensation program:

- is crucial to our ability to motivate employees;
- assists us to remain competitive by recruiting key talent and retaining our highly skilled work force;
- encourages and rewards employee performance; and
- helps align employee interests with those of our stockholders.

Performance Goals: Currently, at the Committee's discretion, one or more of the following performance goals may apply: annual revenue, cash position, earnings per share, individual objectives, net income, operating cash flow, operating income, return on assets, return on equity, return on sales, and total stockholder return.

In order to provide our Compensation Committee with greater flexibility in designing equity awards that qualify as deductible performance-based compensation under Code Section 162(m), this proposal seeks stockholder approval of a plan amendment such that the following performance goals may apply: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes, interest, depreciation and amortization (EBITDA) and earnings before taxes and net earnings), (vi) earnings per share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the S&P 500 Index, the Philadelphia Semiconductor Sector Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating margin, (xvii) market share, (xviii) contract awards or backlog, (xix) overhead or other expense reduction, (xx) credit rating, (xxi) objective customer satisfaction, quality and delivery indicators, (xxii) new product invention or innovation, (xxiii) attainment of research and development milestones, (xxiv) improvements in productivity, (xxv) attainment of objective operating goals, and (xxvi) objective employee metrics.

The performance measures listed above may apply to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, product line, affiliate or business segment, and may be measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, in each case as specified by the Compensation Committee. Financial performance measures may be determined in accordance with United States Generally Accepted Accounting Principles

(“GAAP”) and/or in accordance with accounting principles established by the International Accounting Standards Board (“IASB Principles”) or may be adjusted by our Compensation Committee when established to exclude any items otherwise includable under GAAP or under IASB Principles. The Committee may choose other performance goals for awards that are not intended to qualify as performance-based compensation under Code Section 162(m).

Provide Board with Authority to Adjust Equity Awards in a Spin-Off, Split-Off, or Similar Transaction. From time to time we have considered and may consider a spin-off, split-off or similar transaction involving the equity securities of SunPower Corporation or another subsidiary or former subsidiary. In the event of such a transaction, outstanding Plan awards may decrease in value, perhaps substantially. Accordingly, we are asking our stockholders to approve a Plan amendment providing the Board with the discretionary authority to appropriately and proportionately adjust the number and/or type of shares covered by each outstanding award, the price per share of common stock covered by each outstanding award, the number of shares of common stock authorized for issuance under the Plan, or to take such other appropriate actions to account for any increase or decrease in the value of an outstanding award resulting from such transaction.

Shares Reserved Under the Amended Plan

As of March 1, 2008, 4.5 million shares of common stock were available for issuance under the current 1994 Stock Plan. Options to purchase approximately 15.3 million shares of common stock were outstanding under the current 1994 Stock Plan, with a weighted exercise price of \$15.70 per share. We have issued 6.0 million shares subject to restricted stock units under the 1994 Stock Plan. Shares under the Amended Plan may be authorized but unissued, or reacquired shares.

Required Vote

THE AFFIRMATIVE VOTE OF THE HOLDERS OF A MAJORITY OF THE COMMON STOCK PRESENT OR REPRESENTED AT THE MEETING IS REQUIRED TO APPROVE THE ADOPTION OF THE AMENDED PLAN AND APPROVE ITS MATERIAL TERMS. THE BOARD OF DIRECTORS RECOMMENDS VOTING “FOR” THE APPROVAL OF THE ADOPTION OF THE AMENDED PLAN AND APPROVAL OF ITS MATERIAL TERMS.

SUMMARY OF THE AMENDED PLAN

The following is a summary of the principal features of the Amended Plan and its operation. However, the summary is qualified in its entirety by reference to the Amended Plan, as set forth in Appendix A.

Background and Purpose of the Amended Plan

The Amended Plan is intended to (i) attract, (ii) retain, and (iii) increase incentives through share ownership on the part of eligible employees, consultants, and non-employee directors who provide significant services to us. We believe that over the years, our stock plans have made a significant contribution to the success of our business by increasing our ability to attract and retain highly competent individuals on whose judgment, initiative, leadership and continued efforts our growth and profitability depend.

Types of Awards Granted Under the Amended Plan

The Amended Plan permits the grant of the following types of discretionary incentive awards:

- (1) incentive stock options,
- (2) nonstatutory stock options,
- (3) restricted stock (including restricted stock units), and
- (4) stock appreciation rights.

The Amended Plan also provides for the grant of automatic, nondiscretionary stock options and restricted stock units to our non-employee directors. Collectively, the discretionary awards, automatic options and restricted stock units are referred to as “Awards.”

Administration of the Amended Plan

A committee of at least two non-employee members of our Board (the “Committee”) administers the Amended Plan. To make grants to certain of our officers and key employees, the members of the Committee must qualify as “non-employee” directors under Rule 16b-3 of the Securities Exchange Act of 1934, and as “outside directors” under Section 162(m) of the Internal Revenue Code (so that we can receive a federal tax deduction for certain compensation paid under the Amended Plan).

Subject to the terms of the Amended Plan, the Committee has the sole discretion to select the employees, consultants, and non-employee directors who will receive discretionary Awards, determine the terms and conditions of such discretionary Awards (for example, the exercise price and vesting schedule), and interpret the provisions of the Amended Plan and outstanding Awards. The Committee also has the authority to amend outstanding Awards, including the authority to accelerate vesting or to extend an option’s post-termination exercise period (but not beyond the original option term). The Committee may delegate any part of its authority and powers under the Amended Plan to one or more of our directors and/or officers.

No Repricing

The Committee may not permit the repricing, including by way of exchange, of any option or restricted stock Award, without receiving prior stockholder approval.

Awards that Expire or are Forfeited

If an Award expires or is cancelled without having been fully exercised or vested, the unvested or cancelled shares generally will be returned to the available pool of shares reserved for issuance under the Amended Plan.

Eligibility to Receive Awards

The Committee selects the employees, consultants, and non-employee directors who will be granted discretionary Awards; provided that only employees may receive incentive stock options. The actual number of individuals who will receive discretionary Awards cannot be determined in advance because the Committee has the discretion to select the participants.

Our non-employee directors are eligible to receive automatic option grants upon joining our Board, and automatic restricted stock unit (“RSU”) grants for each year they serve on the Board.

As of March 1, 2008, 4,366 employees and other service providers, including nine (9) executive officers and six (6) non-employee directors, were eligible to participate in the Plan.

Stock Options

A stock option is the right to acquire shares at a fixed exercise price for a fixed period of time. Under the Amended Plan, the Committee may grant nonstatutory stock options and/or incentive stock options (which entitle employees, but not Cypress, to more favorable tax treatment).

Share Limits. The Committee will determine the number of shares covered by each option, but during any fiscal year of Cypress, no participant may be granted options covering more than 1,000,000 shares.

Exercise Price. The exercise price of the shares subject to each option is set by the Committee, but cannot be less than 100% of the fair market value (on the date of grant) of the shares covered by the option.

Incentive Stock Options. The exercise price of an incentive stock option must be at least 110% of fair market value if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of Cypress or any parent or subsidiary. The aggregate fair market value of the shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed \$100,000. Any shares in excess of this limit will be treated as a nonstatutory stock option. If the employee holds more than one incentive stock option, the incentive stock options are considered in the order in which they were granted.

Term and Vesting. An option granted under the Amended Plan generally cannot be exercised until it becomes vested. The Committee establishes the vesting schedule of each option at the time of grant. Options granted to new hires typically cliff vest as to 20% of the covered shares after one (1) year of service and vest monthly thereafter so as to be 100% vested after completing five (5) years of service. Options granted to existing employees typically vest monthly over five (5) years. Options granted under the Amended Plan expire at the times established by the Committee, but not later than eight (8) years after the grant date (such term is limited to five (5) years in the case of an incentive stock option granted to a participant who owns stock possessing more than 10% of the total combined voting power of all classes of stock of Cypress or any parent or subsidiary).

Exercise of the Option. An option granted under the Amended Plan is exercised by giving written or electronic notice to Cypress, specifying the number of shares to be purchased and tendering full payment of the exercise price to Cypress. The Committee may permit payment through the tender of shares that are already owned by the participant, or by any other means that the Committee determines to be consistent with the purpose of the Amended Plan. The participant must pay any taxes that Cypress is required to withhold at the time of exercise.

Termination of Participant. In the event an optionee's continuous status as an employee, director, or consultant terminates for any reason other than upon the optionee's death or disability, all of the options held by the optionee under the Amended Plan will be exercisable (to the extent the option was exercisable on the date of termination) within such period of time as is specified in the applicable option agreement. In the absence of a specified period of time in the option agreement, the vested portion of the option will remain exercisable for a period of thirty (30) days following the date of such termination. In the event an optionee's continuous status as an employee, director, or consultant terminates as a result of the optionee's disability, all of the options held by the optionee under the Amended Plan will be exercisable (to the extent the option was exercisable on the date of termination) for a period of six (6) months following the date of such disability or such longer period of time not exceeding twelve (12) months, as specified in the applicable option agreement. In the event an optionee's continuous status as an employee, director, or consultant terminates as a result of the optionee's death, all of the options held by the optionee under the Amended Plan will be exercisable (to the extent the option would have become exercisable had the optionee continued living and remained in continuous status as an employee, director, or consultant) for an additional twelve (12) months. In addition, if the optionee dies within thirty (30) days after his or her termination of continuous status as an employee, director, or consultant, the option may be exercised within six (6) months following the date of such death (to the extent the option was exercisable on the date of termination). However, in no event may the period of exercisability extend beyond the expiration date of the option.

Restricted Stock/Restricted Stock Units

Awards of restricted stock are shares that vest in accordance with the terms and conditions established by the Committee. The Committee will determine the terms and conditions of restricted stock granted under the Amended Plan, including the number of shares of restricted stock granted to any employee, consultant, or non-employee director and whether the award will be in the form of restricted stock or restricted stock units; provided that during any fiscal year of Cypress, no participant may be granted more than 800,000 shares of restricted stock or restricted stock units.

In determining whether an award of restricted stock or restricted stock units should be made, and/or the vesting schedule for any such Award, the Committee may impose whatever conditions to vesting as it determines to be appropriate. For example, the Committee may determine to grant an Award of restricted stock only if the participant satisfies performance goals established by the Committee.

Automatic Grants to Non-Employee Directors

Under the Amended Plan, our non-employee directors receive automatic option grants upon first joining our Board and annual RSU grants thereafter. No person has any discretion to select which non-employee directors will be granted automatic grants or to determine the number of shares to be covered by the automatic grants.

Administration Award Grants. Automatic award grants are not subject to any discretionary administration and are made pursuant to a non-discretionary formula as follows:

- each non-employee director is automatically granted a nonstatutory stock option to purchase 80,000 shares (the “Initial Option”) upon the date such individual first becomes a non-employee director, whether through election by the stockholders of Cypress or by appointment by the Board in order to fill a vacancy; and
- each outside director who was an outside director on the date of the prior year’s annual stockholder meeting shall be automatically granted an RSU covering 10,000 units/shares, and each outside director who was not an outside director on the date of the prior year’s annual stockholder meeting shall receive an RSU covering the number of units/shares determined by multiplying 10,000 shares by a fraction, the numerator of which is the number of days since the outside director received his or her Initial Option, and the denominator of which is 365, rounded down to the nearest whole unit/share.

Terms and Conditions of the Options. Each automatic option is evidenced by a director option agreement between Cypress and the non-employee director, and is subject to the following terms and conditions:

- *Term of Options.* Each automatic Initial Option has a maximum term of eight (8) years from the date of grant. No option may be exercised after the expiration of its term.
- *Exercise Price.* The exercise price of each automatic Initial Option is equal to 100% of the fair market value (on the date of grant) of the shares covered by the option.
- *Vesting/Exercise of the Option.* An automatic Initial Option is exercised by giving written notice of exercise to Cypress, specifying the number of shares to be purchased and tendering payment of the purchase price to Cypress in the form described below. Initial Options become exercisable as to 1/60th of the shares subject to the option each month, so as to become 100% vested on the five-year anniversary of the grant date, subject to the optionee maintaining his or her continuous status as a director on each vesting date.

Payment of the Exercise Price. Payment for shares issued upon exercise of an Initial Option may, depending on the terms of the option agreement, consist of cash, check, certain other shares, cashless exercise, or any combination of these methods of payment.

Termination of Directorship. In the event an optionee’s status as a director terminates for any reason, all of the options held by the optionee under the Amended Plan will generally be exercisable (to the extent the option was exercisable on the date of termination, or in the case of death, to the extent the option would have become exercisable had the optionee continued living and remained in continuous status as a director for another twelve (12) months) for a period of one (1) year following the date of such termination. In addition, if the optionee dies within thirty (30) days after his or her termination of continuous status as a director, the option may be exercised within one (1) year following the date of such death (to the extent the option was exercisable on the date of termination). However, in no event may the period of exercisability extend beyond the expiration date of the options.

Terms and Conditions of RSUs. Each automatic RSU is evidenced by an RSU agreement between Cypress and the non-employee director, and vests as to 20% each year on the date immediately prior to the Company’s regularly scheduled annual stockholders meeting, so as to be 100% vested on the day prior to the annual stockholders meeting held approximately five (5) years following the grant date, subject to the director maintaining his or her continuous status as a director on each vesting date.

Transfers or Leave of Absence

Unless otherwise determined by the Committee, and subject to applicable laws, the vesting of awards granted under the Amended Plan ceases during any unpaid leave of absence. Moreover, unless otherwise determined by the Committee, any employee who transfers his or her employment to a subsidiary and receives an

equity incentive covering such subsidiary's equity securities in connection with such transfer, ceases vesting in his or her awards granted under the Amended Plan, until such time (if at all) the employee transfers from the employment of the subsidiary or another subsidiary back to the employment of Cypress.

Changes in Capitalization

If we experience a stock split, reverse stock split, stock dividend, combination or reclassification of our shares, or any other increase or decrease in the number of issued shares effected without our receipt of consideration (except for certain conversions of convertible securities), appropriate adjustments will be made, subject to any required action by our stockholders, to the number of shares available for issuance under the Amended Plan, the number of shares issuable as restricted stock or restricted stock unit awards under the Amended Plan, the number of shares covered by each outstanding Award, the price per share covered by each outstanding Award, and the per-person limits on Awards, as appropriate to reflect the stock dividend or other change.

Spin-Off, Split-Off or Similar Transactions

If we undertake a spin-off, split-off or similar transaction involving the equity securities of our subsidiaries, the Board in its discretion may make appropriate adjustments, subject to any required action by our stockholders, to the number of shares available for issuance under the Amended Plan, the number and/or type of shares issuable as restricted stock or restricted stock unit awards under the Amended Plan, the number of shares covered by each outstanding Award, the price per share covered by each outstanding Award or take such other actions as appropriate to reflect the increase or decrease in value of outstanding Awards as a result of such transaction.

Merger or Asset Sale

In the event of our merger with or into another corporation or the sale of substantially all of our assets, the successor corporation (or its parent or subsidiary) will assume or substitute each outstanding Award. With respect to discretionary Awards, the Committee may, in its sole discretion, fully accelerate such Awards in lieu of assumption or substitution. In such event, the Committee will notify all optionees that their options under the Amended Plan will be fully exercisable for a period of thirty (30) days from the date of such notice and the option will terminate upon the expiration of such period.

With respect to automatic option and RSU grants, in the event the successor corporation does not agree to assume or substitute for such options or RSUs, each outstanding automatic option and RSU will become fully vested and exercisable, including as to shares that would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise.

Awards to be Granted to Certain Individuals and Groups

The number of discretionary Awards that an employee or consultant may receive under the Amended Plan is at the discretion of the Committee and therefore cannot be determined in advance. The following table sets forth (a) the aggregate number of shares subject to automatic restricted stock unit grants under the Plan during the last fiscal year, and (b) the average per share exercise price of such automatic RSU grants.

Name of Group	Number of Automatic Restricted Stock Units Granted	Number of Automatic Stock Option Grants	Average Per Share Exercise Price
All executive officers, as a group ⁽¹⁾	0	0	\$0
All directors who are not executive officers, as a group	60,000	0	\$0
All employees who are non-executive officers, as a group	0	0	\$0

- (1) None of our executive officers received automatic grants in 2007. All of our executive officers received performance-based restricted stock units in 2007.

Limited Transferability of Awards

Awards granted under the Amended Plan generally may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the applicable laws of descent and distribution. During the participant's lifetime, only the participant may exercise the Award. If the Committee makes an Award under the Amended Plan transferable, such Award will contain such additional terms and conditions as the Committee deems appropriate.

Federal Tax Aspects

The following paragraphs are a summary of the general federal income tax consequences to U.S. taxpayers and Cypress of awards granted under the Plan. Tax consequences for any particular individual may be different.

Nonstatutory Stock Options. No taxable income is reportable when a nonstatutory stock option is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Incentive Stock Options. No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxation is similar to nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more than two (2) years after the grant date and more than one (1) year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

Restricted Stock/Restricted Stock Units. A participant will not have taxable income upon grant unless he or she elects to be taxed at that time (except no such election is available for restricted stock units). Instead, he or she will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the shares received minus any amount paid for the shares.

Tax Effect for Cypress. Cypress generally will be entitled to a tax deduction in connection with an Award under the Amended Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to certain of our executive officers. Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, Cypress can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the Amended Plan, setting limits on the number of Awards that any individual may receive, and for awards other than certain stock options, establishing performance criteria that must be met before the award actually will vest or be paid. The Amended Plan has been designed to permit the Committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting Cypress to continue to receive a federal income tax deduction in connection with such awards.

Amendment and Termination of the Amended Plan

The Board generally may amend, alter, suspend, or terminate the Amended Plan at any time, except that certain amendments may require stockholder approval or the consent of participants in the Amended Plan. Adding shares to the Amended Plan requires stockholder approval, except in the case of adjustments due to a stock split or similar change in capitalization effected without the receipt of consideration by us. Currently, the Plan is scheduled to expire on March 25, 2017.

Summary

We believe strongly that the approval of the Amended Plan is essential to our continued success. Awards such as those provided under the Amended Plan constitute an important incentive for our key employees and other service providers and help us to attract, retain and motivate people whose skills and performance are critical to our success. Our employees are our most valuable asset. We strongly believe that the Amended Plan is essential for us to compete for talent in the difficult labor markets in which we operate.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity Compensation Plan Information:

The following table summarizes certain information with respect to Cypress's common stock that may be issued under the existing equity compensation plans as of December 30, 2007:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity Compensation Plans Approved by Security Holders	22,398,000 ⁽¹⁾	\$15.69 ⁽²⁾	5,857,000 ⁽³⁾
Equity Compensation Plans Not Approved by Security Holders	3,952,000	\$21.35	2,448,000 ⁽⁴⁾
Total	26,350,000 ⁽⁵⁾	\$16.80	8,305,000

- (1) Includes 6.8 million shares of restricted stock units granted.
- (2) Excludes the impact of 6.8 million shares of restricted stock units which have no exercise price.
- (3) Includes (a) 4.7 million shares available for future issuance under Cypress's 1994 Amended Plan, and (b) 1.2 million shares available for future issuance under Cypress's Employee Stock Purchase Plan.
- (4) Includes shares available for future issuance under Cypress's 1999 Plan.
- (5) Total number does not include approximately 0.1 million outstanding options, with a weighted-average exercise price of \$6.37 per share, originally granted under plans assumed by Cypress in connection with various acquisitions. Cypress does not intend to grant any additional options under these plans.

PROPOSAL FOUR

APPROVAL OF CYPRESS'S PERFORMANCE BONUS PLAN

On March 24, 2008, our Board of Directors unanimously approved the Performance Bonus Plan (the "Bonus Plan") and directed that the Bonus Plan be submitted to stockholders at the Annual Meeting. If approved by our stockholders, the plan will be effective for the Company's current fiscal year. If the Bonus Plan is not approved by stockholders, targets under the Bonus Plan previously set by the Compensation Committee will be null and void and no payments relating to those targets will be made. This summary is qualified in its entirety by reference to the Bonus Plan itself set forth in Appendix B.

Description of the Performance Bonus Plan

Purpose. The purpose of the Bonus Plan is to motivate the participants to achieve our corporate and business unit performance objectives and to reward them when those objectives are satisfied. The Bonus Plan is also designed to pay incentive compensation that is performance-based and therefore fully tax-deductible on Cypress's federal income tax return. Under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), Cypress may not receive a federal income tax deduction for compensation paid to Cypress's chief executive officer or any of the next four most highly compensated executive officers to the extent that any of these persons receives more than \$1 million in cash compensation in any one (1) year, unless the compensation is "performance-based" under Section 162(m). If the compensation qualifies as "performance-based," Cypress will receive a federal income tax deduction for the compensation even if such compensation is more than \$1 million during a single year.

Eligibility. Participants in the Bonus Plan are executive officers and key employees who are recommended by the Company's senior management and approved solely at the discretion of the Compensation Committee. Our chief executive officer, all of our executive vice presidents and all of our senior vice presidents are eligible to be considered for participation in the Bonus Plan. Our executive officers are eligible to receive awards under the Bonus Plan, therefore, our executive officers have an interest in this proposal. No person is automatically entitled to participate in the Bonus Plan in any Bonus Plan year. It is anticipated that only our chief executive officer would participate in this Bonus Plan in fiscal year 2008. We may also pay discretionary bonuses, or other types of compensation, outside of the Bonus Plan.

Administration. The Bonus Plan is administered by the Compensation Committee, consisting of no fewer than two (2) members of the Board.

Determination of Awards. Under the Bonus Plan, participants are eligible to receive cash payments based upon the attainment and certification of certain objective performance criteria established by the Compensation Committee. The performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, product line, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, in each case as specified by the Compensation Committee and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP") or in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or which may be adjusted when established to exclude any items otherwise includable under GAAP or IASB Principles. Eligible performance measures include (i) cash flow (including operating cash flow or free cash flow, or any other approved measurement of cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings before taxes and net earnings), (vi) earnings per basic or fully diluted share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the S&P 500 Index, the Philadelphia Semiconductor Sector Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating margin, (xvii) market share, (xviii) contract awards or backlog, (xix) overhead or other expense reduction, (xx) credit rating, (xxi) objective customer satisfaction, quality and delivery indicators, (xxii) new product invention or innovation, (xxiii) attainment of research and development milestones, (xxiv) improvements in productivity, (xxv) attainment of objective operating goals, and (xxvi) objective employee metrics.

The performance criteria may differ for each participant.

Our Compensation Committee retains the discretion to reduce or eliminate any award that would otherwise be payable pursuant to the Bonus Plan.

2008 Awards. For fiscal year 2008, the sole Bonus Plan participant is expected to be our chief executive officer and president, T. J. Rodgers, who will receive an award based on the Company achieving a specified level of consolidated non-GAAP fully diluted earnings per share for fiscal year 2008. Net income used in the non-GAAP earnings per share calculation will exclude stock-based compensation expense, amortization of intangibles and other acquisition-related charges, restructuring charges, and certain other nonrecurring charges, and credits that are not considered by management as part of the core operation. The details of the specific earnings per share target have not been included in this proxy statement in order to maintain the confidentiality of our earnings per share expectations, which we believe are confidential commercial or business information, the disclosure of which would adversely affect the Company.

Because Mr. Rodgers has been designated a participant in the Bonus Plan, he has been removed as a participant from our Key Employee Bonus Plan for 2008, as well as any future years in which he is a participant in the Bonus Plan. For fiscal year 2008, the target that Mr. Rodgers could earn under the Bonus Plan is \$1,050,000 and the maximum award would be \$2,100,000.

Payment of Awards. All awards will be paid in cash as soon as is practicable following determination of the award, unless the amount is deferred under one of the Company's non-qualified deferred compensation plans, in which case awards will be paid pursuant to the timing requirements of that plan and applicable law. The Compensation Committee may also defer the payment of awards in its discretion, as necessary or desirable to preserve the deductibility of such awards under Code Section 162(m).

Maximum Award. The amounts that will be paid pursuant to the Bonus Plan are not currently determinable. The maximum bonus payment that any participant may receive under the Bonus Plan in any of our fiscal years is \$3,000,000.

Amendment and Termination. The Compensation Committee may amend, suspend or terminate the Bonus Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or supply omitted data or reconcile any inconsistency in the Bonus Plan or in any award granted thereunder. The Compensation Committee may amend or modify the Bonus Plan in any respect, or terminate the Bonus Plan, without the consent of any affected participant. However, in no event may such amendment or modification result in an increase in the amount of compensation payable pursuant to any award.

Indemnification. Our Board of Directors and Compensation Committee are generally indemnified by the Company for any liability arising from claims relating to the Bonus Plan.

Federal Income Tax Consequences. Under present federal income tax law, participants will recognize ordinary income equal to the amount of the award received in the year of receipt. That income will be subject to applicable income and employment tax withholding by the Company. If and to the extent that the Bonus Plan payments satisfy the requirements of Section 162(m) of the Code and otherwise satisfy the requirements for deductibility under federal income tax law, we will receive a deduction for the amount constituting ordinary income to the participant.

Bonus Plan Benefits

Future benefits under the Bonus Plan are not determinable because awards under the Bonus Plan are determined based on actual future performance.

Required Vote

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL FOUR, THE APPROVAL OF OUR PERFORMANCE BONUS PLAN. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE IN THEIR PROXIES.

MANAGEMENT

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of our common stock as of the Record Date (except as described below) by:

- each of our directors;
- our chief executive officer and each of the four other most highly compensated individuals who served as our executive officers at fiscal year-end (the “Named Executive Officers”);
- all individuals who served as directors or executive officers at fiscal year-end as a group; and
- each person (including any “group” as that term is used in Section 13(d)(3) of the Exchange Act of 1934, as amended) who is known by us to own beneficially more than 5% of our common stock.

Directors, Officers and 5% Stockholders	Shares Beneficially Owned	
Directors	<u>Number</u>	<u>Percent⁽¹⁾</u>
T.J. Rodgers ⁽²⁾	3,394,428	2.3%
W. Steve Albrecht ⁽³⁾	67,609	*
Eric A. Benhamou ⁽⁴⁾	89,890	*
Lloyd Carney ⁽⁵⁾	21,767	*
James R. Long ⁽⁶⁾	87,808	*
J. Daniel McCranie ⁽⁷⁾	24,624	*
Evert van de Ven ⁽⁸⁾	84,381	*
Named Executive Officers		
Brad W. Buss ⁽⁹⁾	158,866	*
Ahmad R. Chatila ⁽¹⁰⁾	70,424	*
Paul D. Keswick ⁽¹¹⁾	295,943	*
Christopher A. Seams ⁽¹²⁾	514,511	*
All directors and executive officers at fiscal year-end as a group (15) ⁽¹³⁾	3,984,045	2.5%
5% Stockholders		
FMR LLC ⁽¹⁴⁾	24,742,150	15.5%
82 Devonshire Street Boston, Massachusetts 02109		
Janus Capital Management LLC ⁽¹⁵⁾	9,739,959	6.1%
151 Detroit Street Denver, Colorado 80206		

* Less than 1%

- (1) The total number of shares outstanding as of the Record Date was 150,545,865. The percentage of ownership for each of our named executive officer and director is based on the number of shares outstanding as of the Record Date; the percentage for all directors and executive officers (as a group) is based on the number of shares outstanding as of 2007 fiscal year end; and the percentage of the 5% ownership is based on the applicable form 13G filed with the SEC.
- (2) Includes 610,649 shares of common stock held directly by Mr. Rodgers and options to purchase 2,783,779 shares of common stock, which are exercisable within 60 days of the Record Date.
- (3) Represents 10,900 shares of common stock held directly by Mr. Albrecht, beneficial ownership of 2,000 restricted stock units that will vest, and options to purchase 54,709 shares of common stock, which are exercisable within 60 days of the Record Date.
- (4) Represents beneficial ownership of 2,000 restricted stock units that will vest, and options to purchase 87,890 shares of common stock by Mr. Benhamou, which are exercisable within 60 days of the Record Date.
- (5) Represents 5,000 shares of common stock held directly by Mr. Carney, beneficial ownership of 2,000 restricted stock units that will vest, and options to purchase 14,767 shares of common stock by Mr. Carney, which are exercisable within 60 days of the Record Date.
- (6) Represents 24,300 shares of common stock held directly by Mr. Long, beneficial ownership of 2,000 restricted stock units that will vest, and options to purchase 61,508 shares of common stock, which are exercisable within 60 days of the Record Date.
- (7) Represents 1,239 shares of common stock held directly by Mr. McCranie, beneficial ownership of 2,000 restricted stock units that will vest, and options to purchase 21,385 shares of common stock, which are exercisable within 60 days of the Record Date.
- (8) Represents 5,000 shares of common stock held directly and 1,000 shares of common stock held indirectly by Mr. van de Ven. Also includes beneficial ownership of 2,000 restricted stock units that will vest and options to purchase 76,381 shares of common stock, which are exercisable within 60 days of the Record Date.
- (9) Represents 63,733 shares of common stock held directly by Mr. Buss, and options to purchase 95,133 shares of common stock, which are exercisable within 60 days of the Record Date.
- (10) Includes 51,704 shares of common stock held directly by Mr. Chatila. Also includes options to purchase 18,720 shares of common stock, which are exercisable within 60 days of the Record Date.
- (11) Represents 51,943 shares of common stock directly held by Mr. Keswick, and options to purchase 244,000 shares of common stock, which are exercisable within 60 days of the Record Date.
- (12) Includes 50,895 shares of common stock held directly by Mr. Seams. Also includes options to purchase 463,616 shares of common stock, which are exercisable within 60 days of the Record Date.
- (13) Includes 471,004 shares of common stock held directly or indirectly by our directors, executive officers, and their family members. Also includes options to purchase 3,513,041 shares of common stock exercisable as of December 30, 2007, by our directors, executive officers, and their family members.
- (14) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G/A filed on February 14, 2008, with the SEC by FMR LLC. FMR LLC has sole voting power with respect to 188,350 shares and sole dispositive power with respect to 24,742,150 shares of common stock.
- (15) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G filed on February 14, 2008, with the SEC by Janus Capital Management LLC. Janus Capital Management LLC has shared voting and dispositive power with respect to 662,411 shares, sole voting and dispositive power with respect to 9,077,548 shares.

The following table sets forth certain information regarding beneficial ownership of shares of the common stock of our significant active subsidiaries as of the Record Date by:

- each of our directors;
- each of our Named Executive Officers that held such shares of common stock or rights to acquire such common stock; and
- each of our directors and Named Executive Officers as a group.

SUNPOWER CORPORATION

Directors/Officers	Shares Beneficially Owned		
	<u>Options</u>	<u>Number</u> <u>Class A Common Stock</u>	<u>Percent</u> ⁽¹⁾
T.J. Rodgers ⁽²⁾	0	17,500	*
W. Steve Albrecht ⁽³⁾	7,002	4,000	*
All directors and Named Executive Officers as a group ...	7,002	21,500	*

* Less than 1%

- (1) The total number of shares of capital stock of SunPower Corporation outstanding as of December 30, 2007, was 84,710,244, of which Cypress owns 44,533,287 shares or 100% of the class B common stock, and no shares of class A common stock.
- (2) Represents 15,000 shares of class A common stock held directly by Mr. Rodgers. Also represents 2,500 restricted stock that would vest as of 60 days from our Record Date. In 2007, Mr. Rodgers was awarded 10,000 restricted shares of class A common stock of SunPower Corporation for his services as a director and active operational role as chairman of SunPower Corporation, a majority-owned subsidiary of Cypress. Mr. Rodgers did not receive any other remuneration for his services on the Board of Directors of SunPower Corporation.
- (3) Represents 3,500 shares of class A common stock directly held by Mr. Albrecht. Also represents options held by Mr. Albrecht to purchase 7,002 shares of Class A common stock of SunPower Corporation, and represents beneficial ownership of 500 restricted shares of class A common stock of SunPower that will vest within 60 days from our Record Date. For his board-related services, in 2007, Mr. Albrecht was granted options to purchase 6,000 shares of class A common stock and 2,000 restricted shares of SunPower's class A common stock.

We do not know of any arrangements that may result in a change-in-control of the Company and no change-in-control has occurred since the beginning of the last fiscal year.

COMPENSATION DISCUSSION AND ANALYSIS

This section discusses the principles underlying our policies and decisions concerning the compensation of Cypress's executive officers. This information describes the manner and context in which compensation is awarded to and earned by our executive officers and provides perspective on the tables and narrative that follow. In this Compensation Discussion and Analysis section, the terms "we," "our," and "us" refer to management, the Company and sometimes, as applicable, the Compensation Committee ("Committee") of the Company's Board of Directors (the "Board").

Q: *Who is responsible for determining the Company's compensation policies and practices?*

A: The Compensation Committee is responsible for the following:

- establishing the specific performance objectives for our chief executive officer and subsequently evaluating his compensation based on achievement of those objectives;
- approval of performance objectives for our executive officers;
- formulating, implementing, reviewing, and modifying the compensation of the Company's directors and executive officers;
- recommending to the Board for approval the Company's compensation plans, policies and programs;
- reviewing and approving the Company's Compensation Discussion and Analysis ("CD&A") for inclusion in the proxy statement;
- reviewing and approving the annual merit and stock budgets for focal salary increases and equity grant awards for all eligible employees; and
- reviewing the annual benefit changes made by the Company with respect to its employees.

Q: *How does the Compensation Committee operate?*

A: The Compensation Committee, which is composed entirely of independent directors, is responsible for setting the compensation of our executive officers, including our chief executive officer, and overseeing our compensation policies and practices. It is also responsible for overseeing the administration of our compensation plans. Its charter is available on our web site at http://www.corporate-ir.net/ireye/ir_site.zhtml?ticker=CY&script=2210&item_id=490. None of our employees serve on this Committee. The current members of the Committee are Mr. Eric Benhamou (Chairman), Mr. Lloyd Carney, and Mr. James Long. The Compensation Committee has regularly scheduled meetings and also special meetings, as necessary for the discharge of its responsibilities to the Company.

The Committee is authorized by its charter to retain the services of independent consultants in the discharge of its responsibilities. It may also form and delegate authority to subcommittees of the Committee or our Company's management. In previous years, the Compensation Committee has engaged Pearl Meyer, an employee benefits and compensation consulting firm, to assist it in evaluating executive compensation and benefits, to update the Committee on market trends and to make recommendations for establishing the market values of top positions in our Company. Upon request by the Committee, a consultant attends Compensation Committee meetings and provides information, research and analysis pertaining to executive compensation and benefits. Recently, our primary consultant at Pearl Meyer joined Mercer, Inc. The Compensation Committee believed this individual was valuable to the Committee and the Company due to his experience, skills and familiarity with Cypress's compensation program, objectives and processes. Therefore, in 2007, the Committee approved the retention of Mercer, Inc.

Q: *What is the role of the consultants retained by the Compensation Committee?*

A: Mercer, Inc. assists the Committee in determining the appropriate executive compensation for management by comparing the current salary, bonus, and equity awards of our named executive officers, including our chief executive officer, to comparable positions at peer group companies. Mercer, Inc. also evaluates our named executive officers' total compensation package in light of the Company's overall compensation strategy, considering each named executive officer's responsibilities and performance.

Q: *What is the role of our executive officers in determining executive compensation?*

A: Other than our chief executive officer, who participates in setting the compensation of the other executive officers through his recommendations to the Compensation Committee, our executive officers do not directly participate in the determination of their compensation. The Committee evaluates and approves the compensation of our named executive officers based on each individual's job performance, historical equity awards and the scope of responsibilities for each executive's position. Our executives do participate in defining their quarterly and annual goals, the achievement of which impacts their variable cash compensation under our cash incentive plans.

Our chief executive officer does not participate in setting his own compensation. Mr. Rodgers' salary, bonus and equity grants are determined by the Compensation Committee after considering the peer group analysis undertaken by Mercer, Inc., Mr. Rodgers' job performance, the performance of the Company, and the responsibilities of his position.

Q: *What are the objectives of the Company's executive officer compensation programs and what are they designed to reward?*

A: The compensation programs for our named executive officers are designed with the following objectives:

- to provide competitive compensation opportunities that will attract and retain talented executives;
- to motivate our executives to achieve outstanding operational, strategic, business and financial results for the Company;
- to create a direct and meaningful link between the Company's success, individual performance and rewards;
- to reward executives for meeting and exceeding short-term and long-term goals; and
- to instill in each individual a sense of ownership of the Company.

Base salary is a critical element of executive compensation because it provides our named executive officers with a guaranteed level of monthly income and is set with the goal of attracting and retaining quality executives. Our cash bonus programs are designed to create a direct and meaningful link between individual performance and rewards. For example, our primary cash bonus plans, the Performance Profit Sharing Plan ("PPSP") and the Key Employee Bonus Plan ("KEBP"), provide variable compensation based on each named executive officer's individual performance as well as objective measures of Cypress's profitability. Payments under the PPSP and KEBP are designed to motivate our named executive officers to achieve targeted operational and financial results for the Company, such that our named executive officers are rewarded when our Company performs well. Our Performance Bonus Plan, if approved by our stockholders, will permit the payment of cash bonuses to specified executive officers upon attaining specific objective performance goals. Our equity compensation is designed to reward our named executive officers for meeting and exceeding short-term and long-term goals for the Company. During our annual focal review process, we use a ranking system to create a direct and meaningful link between individual performance and rewards. Therefore, the higher the named executive officer is ranked, the greater percentage increase in both equity and cash compensation the executive will receive.

Q: *What are the factors considered by the Company in determining the 2007 compensation of its executives?*

A: Below are some of the key highlights for the year that were taken into consideration, based on actual results at that time and projected results for 2007, when we evaluated the compensation for our chief executive officer and other executive officers during 2007:

- Record Revenue—during fiscal 2007 we achieved record consolidated revenue of \$1.6 billion—an increase of 46% year over year.
- Earnings per share ("EPS")—our fully diluted GAAP EPS increased from \$0.25 per share in 2006 to \$2.30 per share in 2007—including a substantial one-time gain on the sale of SunPower stock—an increase of 820% year over year. Non-GAAP fully diluted EPS increased a strong 61% year over year.

- The Company continued to execute on its strategy to divest non-core and under-performing businesses. In 2007, we divested four non-core businesses, bringing the total to six (6) divested businesses since the fourth quarter of 2006.
- The Company continued the execution of several strategic changes to its business model, which focused on the introduction of a flexible manufacturing strategy and the exiting of some internally developed process technology.
- The Company achieved record design wins, customer penetration and revenues for its flagship PSoC product line.
- The Company achieved first revenue on many new product lines introduced in the year and continued the development of our next generation PSoC[®]3 and PSoC[®]5 product platforms.
- In 2007, we executed a \$600 million convertible debt offering and used the net proceeds to repurchase 29 million shares of our common stock.
- At the end of fiscal year 2007, the Company's consolidated cash and investments totaled a record \$1.6 billion.
- The price of the Company's common stock appreciated 114% in 2007, significantly outperforming the two key indices the Company benchmarks against for relative stock appreciation: the Philadelphia Semiconductor Index ("SOXX") and the S&P Semiconductor Index. The table below shows the relative stock appreciation performance for the one, three, five and ten year periods ended December 2007:

	Cypress	SOXX	S&P Semiconductor Index
1 Year	114%	(13%)	10%
3 Year	207%	(6%)	11%
5 Year	530%	41%	71%
10 Year	330%	55%	44%

In addition to these accomplishments, we also consider how our compensation compares to competitive positions within the semiconductor industry. In addition, our consultant, Mercer, Inc., provides an overview of market trends and suggests potential program changes to the compensation program. The Company also considers and rewards our named executive officers for relative job contributions and the impact of their performance on the overall performance of the Company in achieving its business plans, goals and other strategic objectives set annually and quarterly by our senior management in conjunction with our Board of Directors. Formulas that measure such achievement are built into certain components of our historical compensation program such that our named executive officers earn less when our corporate goals are not met, and may earn more when the goals are exceeded. The Compensation Committee sets compensation levels based on the skills, experience and achievements of each named executive officer, taking into account the market rates recommended by Mercer, Inc., and the compensation recommendations by the chief executive officer, except with respect to his own position. The Committee believes that input from both management and Mercer, Inc. provides useful information and points of view to assist the Committee in establishing named executive officer compensation.

Q: Who were the peer group companies you benchmarked in 2007 for setting executive compensation?

A: Our peer group companies for 2007 are set forth in the table below.

Peer Group Companies in 2007
Altera Corporation
Analog Devices, Inc.
Atmel Corporation
Broadcom Corporation
Integrated Device Technology Inc.
Linear Technology Corporation
LSI Corporation
Microchip Technology Inc.
National Semiconductor Corporation
Novellus Systems, Inc.
NVIDIA Corporation
ON Semiconductor Corporation
PMC-Sierra, Inc.
SanDisk Corporation
Xilinx, Inc.

The peer group companies were identified from the semiconductor portion of the Radford Executive Survey as well as companies suggested by management and the Compensation Committee. The peer group companies were approved by the Compensation Committee. The Committee, with the assistance of Mercer, Inc., conducts an annual analysis of historic executive compensation and financial performance and establishes annual market rates. This analysis considers market data from our peer group companies. In 2007, the Compensation Committee modified and approved the members of our peer group as part of the review process with our outside consultant. The Compensation Committee chose peer companies that are (i) more representative of market pay practices used for executives in companies of similar size and scope, and (ii) more likely to recruit their employees from a similar pool as Cypress or even from Cypress, and vice-versa. Data on the 2007 peer group was used as part of the determination of grants of performance-based awards that occurred in 2007.

Q: What are the components of the Company's executive compensation?

A: The elements of Cypress's executive compensation program are: (i) base salary; (ii) cash bonuses under our PPSP and our KEBP; (iii) equity awards; and (iv) benefit programs such as our deferred compensation plan. We are also submitting for stockholder approval our Performance Bonus Plan, which will replace the KEBP for its participants. We also offer standard health benefits and an employee stock purchase program to all our employees. The Company does not provide a pension plan, a match to employee contributions to our 401(k) plan, or any disclosable perquisites. In addition, the Company does not have any severance agreements or change of control provisions for its named executive officers.

Q: Why does the Company choose to pay each element?

A: Cypress has selected these elements because each is considered useful and/or necessary to meet one or more of the principal objectives of our compensation program. For example, base salary and bonus opportunities are set with the goal of attracting quality executive officers and adequately compensating and rewarding them for their performance, while our equity programs are geared toward motivating and rewarding short- and long-term goal achievement and aligning our named executive officers with our stockholder interests. Cypress believes that these elements of compensation, when combined, are effective in achieving the objectives of our compensation program and the Company overall.

Q: How does the Company determine the amount and formula for each element?

A: Generally, the Committee targets our named executive officers' overall compensation to fall within the 50th to 75th percentile of the overall compensation for similar positions in our peer group companies. The Committee targets total cash compensation within the range of the 50th percentile and equity compensation

at between the 50th and 75th percentile and potentially higher if performance dictates. In 2007, the total cash compensation of our named executive officers was slightly below, but competitive with the median, among our peer group companies.

We review base salaries periodically, adjusting them as needed to realign with market levels after taking into account individual responsibilities, performance and experience. Our named executive officers had not received a salary increase since October 2006. On February 20, 2008, the Committee approved salary increases for all named executive officers other than Mr. Rodgers. Salary increases for our named executive officers ranged from 3% to 7% depending on years of service, market pay, and the executive's current and future job responsibilities. For example, Mr. Chatila's responsibilities were significantly increased in 2007 as he took on the responsibility of heading the manufacturing arm of our business. Accordingly, his pay increase was set at 7%. The salary increases were effective as of December 1, 2007, consistent with all other Company employees.

Consistent with our compensation philosophy, the Compensation Committee generally targets equity compensation between the 50th and 75th percentile of market and potentially higher if performance dictates. In some circumstances it is necessary to provide compensation above these levels. These circumstances include an effort to retain a key individual, recognizing a role that is larger in scope, complexity or accountability than standard market positions, or an effort to reward outstanding individual performance. For example, in 2007 the Compensation Committee granted 100% performance-based restricted stock units to its executive officers, including our named executive officers, in part to avoid the loss of key talent as the Company entered a multi-year refocus of its core semiconductor business and to provide substantial incentive to increase financial, operational and strategic results. The Compensation Committee expected that this one-time grant, to be earned over a period of five (5) years, might result in total compensation packages that are higher than targeted market positions if all performance-related milestones were achieved.

The following table shows the allocation of various compensation elements as a percentage of total compensation for our named executive officers in 2007. The equity compensation amounts are based on the fair market value on the grant date as determined in accordance with GAAP, excluding forfeiture assumptions, and do not represent actual compensation earned or received by the named executive officer.

Name and Principal Position	Base Salary	Cash Bonus Awards	Equity Compensation	All Other Compensation⁽¹⁾
T.J. Rodgers President, Chief Executive Officer and Director	5.7%	7.2%	72.0%	15.1%
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	9.2%	6.3%	84.5%	0.0%
Ahmad R. Chatila Executive Vice President, Memory and Imaging Division	11.6%	6.0%	82.4%	0.0%
Paul D. Keswick Executive Vice President, New Product Development	13.0%	6.7%	80.3%	0.0%
Christopher A. Seams, Executive Vice President, Sales and Marketing	12.7%	8.4%	75.0%	3.9%

⁽¹⁾ "All Other Compensation" consists of the aggregate earnings on the individual's contributions under our deferred compensation plans in fiscal year 2007.

Q: *Did the actual compensation awarded to named executive officers in 2007 meet the targeted percentiles and, if not, why was it outside the range?*

A: Total cash compensation (base salary and cash bonus awards) to our named executive officers in 2007 was, in the aggregate, slightly below but competitive with our target of the 50th percentile of our peer group. In February 2008, our Compensation Committee bridged the gap by increasing the salaries of our named executive officers, except for Mr. T.J. Rodgers, whose salary remains unchanged since 2006.

Equity compensation, and consequently, total compensation, was above our target of the 50th to 75th percentile of our peer group companies primarily due to the fact that management achieved all milestones for 2007 and the equity portion of the compensation is based on the SFAS 123(R) values of the performance-based restricted stock units awarded to our named executive officers in 2007 and any other of their equity awards that vested in 2007. The SFAS 123(R) value is based on the Company's stock price on the grant date. In 2007, we outperformed our peer group companies by 121% and this had a material impact on our SFAS 123(R) value. The Compensation Committee recognized that the maximum annualized expense for the one-time performance-based restricted stock unit grants in 2007 would be at or above the 75th percentile of peer group companies based on their grant practices and values.

Q: *How are the equity and cash incentive plans structured?*

A: *Cash Incentive Plans:* We have two cash incentive plans: the Performance Profit Sharing Plan ("PPSP") and the Key Employee Bonus Plan ("KEBP"). Both plans require the active participation of our named executive officers because payouts are determined, in part, on the achievement of quarterly and annual goals, known as "Critical Success Factors" ("CSFs"). CSFs are measurable quarterly and annual goals that are pre-defined by our named executive officers and approved by our chief executive officer in advance of each review period. Our chief executive officer's CSFs are approved by the Board of Directors. Our named executive officers typically designate between ten (10) and fifteen (15) CSFs per quarter and for the year. CSFs for each period are scored on a scale of 0 to 100%, with each CSF representing a specific point value based on its importance to the Company and/or its level of difficulty. Specific scoring parameters that will be used to determine whether the CSF has been achieved are also identified in advance. At the end of each fiscal quarter, or fiscal year, as the case may be, our named executive officers "score" their CSFs based on the scoring parameters previously approved. This score is reviewed and approved by our chief executive officer. Our chief executive officer's score is reviewed by the Compensation Committee and the Board of Directors. The specific CSFs designated for each named executive officer often vary from quarter to quarter, and may include metrics that are relevant to the overall Company as well as individual performance and the performance of the group that they directly manage. In determining the amount of cash incentive pay payable under each of the KEBP and the PPSP, the Company uses the final CSF scores for the given review period as a component in the formulas that determine the bonus to be paid under each plan. The CSFs are not guaranteed and generally reflect actions required to achieve Company objectives. In 2008, our chief executive officer will not participate in the KEBP. Instead, he will participate in our Performance Bonus Plan, subject to our stockholders' approval.

Performance Profit Sharing Plan ("PPSP"): All Cypress employees, including our named executive officers, are eligible to participate in the Company's PPSP, a quarterly formula-driven cash bonus program that pays out based on a combination of the Company's performance and each employee's achievement of his or her quarterly CSFs. For purposes of the PPSP, the Company's 2007 performance is measured by its fully diluted semiconductor non-GAAP EPS (which excludes, among other things, certain items such as stock-based compensation, acquisition-related expenses, uncollectible employee loans, gains on divestiture, investment-related gains and losses, minority interests and tax effects), as compared to the fully diluted semiconductor non-GAAP EPS approved by the Board as part of the annual operating plan. Specifically, the actual non-GAAP EPS for a given fiscal quarter is compared to the applicable quarter's planned non-GAAP EPS as approved by management and the Board at the beginning of the fiscal year. For each participant, including executive officers, the amount paid under the PPSP is based on the following formula:

$$\frac{\text{ACTUAL EPS}}{\text{PLAN EPS}} \times \text{ONE WEEK'S PAY} \times \text{CSF SCORE}$$

The intent of this formula is to ensure that bonuses under the PPSP are only paid during profitable periods and only to those who meet their defined objectives.

Key Employee Bonus Plan (“KEBP”): The KEBP is a formula-driven, cash bonus plan for eligible senior and otherwise high-performing employees, including our named executive officers. The objective of the KEBP is to provide incentives to eligible participants based on the Company's quarterly and annual fully diluted non-GAAP semiconductor EPS, (and in the case of our chief executive officer in 2007, the non-GAAP consolidated EPS) performance and the participant's CSF scores, which can range from 0 to 100%.

Each KEBP participant is placed at an incentive level, which determines the percentage of that individual's base salary he or she is eligible to earn over the course of the year. In 2007, our chief executive officer was the only participant at the 150% incentive level. Our other named executive officers are at the 80% incentive level. In respect to our executives, it means that their overall cash compensation depends heavily on their actual bonus earned under the KEBP program. The KEBP formula is driven very heavily by the Company's fully diluted non-GAAP EPS performance. As with our PPSP, the KEBP only pays out when the Company is profitable. Therefore, if the Company performs well, there is a greater likelihood that the named executive officer will earn money under the KEBP program. Conversely, if the Company does not perform well, the amount that may be earned by a named executive officer is impacted, even if such participant has a high CSF score, thereby making a large portion of our executive officer's compensation at risk. Our KEBP program clearly demonstrates our philosophy of pay for performance, especially against the Company's plan for the applicable period.

The principles above are set out in the KEBP formula below, which reflects how each bonus is determined:

$$\frac{\text{ANNUAL BASE PAY}}{5} \times \text{KEBP \%} \times \frac{\text{ACTUAL EPS}}{\text{PLAN EPS}} \times \text{CSF \%}$$

The performance of the chief executive officer (in 2007) and the executive vice president a KEBP participant reports to also has an impact on the individual's potential payout. If our chief executive officer or the participant's executive vice president scores less than 65% on their CSFs, then the earned payout for the KEBP participant is reduced to zero, regardless of the individual's CSF achievement. If our chief executive officer or the KEBP participant's executive vice president scores from 65–79%, then he or she will be eligible to earn 50% of what he or she would otherwise be entitled to, and if our chief executive officer and such executive vice president scores 80% or above on their CSFs, then the KEBP participant will be eligible to earn up to 100% of their available KEBP payout.

To be eligible for a KEBP payment, our named executive officers must still be employed by the Company on the payment date. Quarterly payouts under the KEBP are made in the quarter following the measuring period, and the payout for the annual target is made in the first quarter of the fiscal year following the measuring period.

Performance Bonus Plan: The provisions of our Performance Bonus Plan are set forth in Proposal Four at page 28 of this proxy statement.

Equity Plans:

Standard Awards: Standard awards are granted under the autoprice program as authorized by the Compensation Committee to all employees, except our executive officers, in connection with their initial hire, promotion or a change in responsibilities. All standard awards are priced at the closing market price on the eighth (8th) day of the month following the effective date without regard to the current share price or to factors that may affect the future share price, except that standard awards to executive officers are priced on the date they are approved by the Compensation Committee.

Focal Awards: Our focal awards generally occur once a year and the majority of all worldwide employees are eligible to participate. Our Human Resources Department works with the Compensation Committee and executive management to propose the number of shares and award type for each employee, and the Compensation Committee approves the awards. The equity awards granted to our chief executive officer in 2007 were made solely by the Compensation Committee as part of the performance-based grants made to all other named executive officers. Our named executive officers, including our chief executive officer, do not have any role in selecting the timing of the awards or the price. The price of options granted under our focal awards is the closing price on the date of the Compensation Committee's approval. All grants are priced without regard to the current share price or to factors that may affect the future share price.

Non-Standard Awards: Non-standard awards include all other awards that do not fall under the standard hire and promotion awards or focal categories. The Compensation Committee retains discretion to structure named executive officer non-standard awards in a manner it deems appropriate and consistent with our compensation philosophy. There is no fixed policy or practice on how the Compensation Committee structures any non-standard awards to named executive officers. If any such awards are made, we will fully disclose how they are structured and implemented to reflect corporate or individual performance, as applicable. All non-standard awards to our named executive officers, except for our chief executive officer, are typically recommended by our chief executive officer based upon input and recommendations from our Human Resources Department. With respect to our chief executive officer, the Compensation Committee may, at its sole discretion, also make such equity awards to him.

In determining the size and type of equity compensation awards to our named executive officers in 2007 and 2008, the Compensation Committee considered the Company's long-term strategy which included a significant amount of restructuring, execution to date on various financial, operational and strategic initiatives, market practice and strong competition for talent at the executive level especially in the Silicon Valley area, projected business needs, strategic goals, the projected impact of stockholder dilution, and the compensation expense we will incur under equity compensation accounting rules. During fiscal year 2007, we made a decision to grant 100% performance-based restricted stock unit awards to each of our named executive officers. These restricted stock unit awards vest ratably over five (5) years, and may only be earned if the Company achieves certain performance milestones set for each year by the Compensation Committee. As a result of the restricted stock unit awards granted by the Compensation Committee in 2007, none of our executive officers is eligible to receive additional awards until 2010, except for Mr. Rodgers who may be granted additional awards solely at the discretion of the Compensation Committee. All earned shares are released following certification by the Compensation Committee that the applicable performance milestone has been achieved. If a performance milestone is not achieved, all the target shares for the performance milestone in the given period are forfeited, returned to the 1994 Stock Plan, and cannot be earned in the future by the grantee.

Q: *What were the Company's qualitative and quantitative, operational and financial performance goals in 2007 under the Company's equity and cash incentive plans?*

A: With respect to cash incentive awards, the CSFs include aspects of qualitative and quantitative operational, strategic, and financial goals that must be achieved in order for participants to earn bonuses under the KEBP and PPSP. The achievement of most of the 2007 key highlights identified in an earlier answer in this CD&A were included in the CSFs of our various executive officers and therefore implicated in our equity and cash incentive plans. Further, the restricted stock unit grants made to our named executive officers in 2007 are based on the achievement of certain financial performance goals.

For example, in 2007 one of the performance milestones for the performance-based restricted stock units awarded to our senior management required the semiconductor business of the Company to meet or exceed certain operating income targets for the second through the fourth quarters of fiscal year 2007. Another milestone required the semiconductor business for the Company to meet or exceed certain threshold levels of semiconductor non-GAAP operating income percentage growth versus a peer group of companies for the second, third and fourth quarters of fiscal year 2007. Furthermore, for Mr. Rodgers and Mr. Buss to earn some of the targeted restricted stock units awarded to them in 2007, the performance milestone required common stock appreciation of Cypress to equal or exceed the appreciation of the SOXX with both measures calculated on a trailing three-year average.

For our cash bonus plans, such as KEBP and PPSP, the payout formula applied by the Compensation Committee calls for the non-GAAP EPS achieved by the semiconductor portion of the Company's business to be divided by the Company's semiconductor plan non-GAAP EPS in the applicable quarter. The achieved non-GAAP EPS for a given fiscal quarter is compared to the same quarter's planned non-GAAP EPS as approved by management and the Board at the beginning of the fiscal year. Our chief executive officer's payout was calculated by using the consolidated non-GAAP EPS of the Company, while the payout to all other employees, including our executive officers, was calculated using the non-GAAP EPS of the semiconductor portion of the business.

The quarterly semiconductor plan EPS targets, our actual EPS achievement, and the percentage of achievement against plan for our 2007 fiscal year were as follows:

2007 Fiscal Year Period	Plan Non-GAAP EPS	Non-GAAP EPS Achieved	Percentage Achievement
1st Quarter	\$0.09 per share	\$0.07 per share	78%
2nd Quarter	\$0.10 per share	\$0.09 per share	90%
3rd Quarter	\$0.15 per share	\$0.18 per share	120%
4th Quarter	\$0.21 per share	\$0.15 per share	71%

The Company's semiconductor financial, strategic, qualitative and quantitative operational goals are infused into the cash incentive performance goals through the use of CSFs in the calculation of payouts under the KEBP and the PPSP plans.

Q: *How did the Compensation Committee decide how many performance-based restricted stock units were awarded as a target to each named executive officer?*

A: The Committee reviewed an analysis of similar awards for the named executive officers in our peer groups, and considered the relative responsibilities and potential contributions of each of our named executive officers to the Company's strategic plan. That analysis confirmed that our long-term incentive values had historically trailed the market. The specific grants were, therefore, designed to create a competitive equity award that would incentivize outstanding performance and ensure the retention of our management team.

Q: *What, if any, are the differences in compensation policies with respect to individual named executive officers?*

A: Our compensation policies are similar for all employees, including our executive officers, with the following exceptions:

T.J. Rodgers (our chief executive officer): Mr. Rodgers' 2007 cash incentive award payouts under the KEBP and PPSP were calculated with a formula including a component consisting of the consolidated non-GAAP EPS for the Company (semiconductor business, plus SunPower) for the applicable period, while the incentive cash award for all other executive officers was calculated using this non-GAAP EPS for the semiconductor portion of the Company's business in the applicable period.

Mr. Rodgers was eligible to earn up to 150% of his base salary, while other named executive officers can earn up to 80% of their base salary. Consistent with our compensation philosophy, the 150% incentive level for our chief executive officer creates significant risk for Mr. Rodgers, as this constitutes a significant portion of his cash compensation, but it also offers significant rewards if Mr. Rodgers and the Company perform well. Mr. Rodgers' non-equity incentive awards, which constitute a significant portion of his cash compensation, are also at risk.

While other named executive officers received an increase in their base salary in 2007 from 3% to 7%, Mr. Rodgers' base salary remained unchanged from 2006.

In 2008, Mr. Rodgers has been removed from the KEBP and is the sole participant in our Performance Bonus Plan, subject to our stockholders approving Proposal Four.

As a result of the performance-based equity awards granted by the Compensation Committee in 2007, our named executive officers are not eligible to receive any further grants until 2010, with the exception of Mr. Rodgers, who may be eligible for additional grants at the Compensation Committee's sole discretion.

The performance milestones that must be achieved by the Company in order for Mr. Rodgers and Mr. Buss to earn performance-based shares are different from the performance milestones approved by the Compensation Committee for the other named executive officers. In 2007 only Messrs. Rodgers and Buss had a performance milestone that required that each is eligible to earn respectively, 50% and 40% of their target award if the common stock appreciation of the Company measured at the end of 2007 was equal to or greater than the appreciation of the SOXX, with both measures calculated on a trailing three-calendar-year average.

Q: *Did the Compensation Committee adjust named executive officer base salaries for 2007 or 2008? If so, why?*

A: Following its review of peer company data, on February 20, 2008, the Compensation Committee increased our named executive officers' base salaries by between 3% to 7% to ensure that our named executive officers' base salaries were within the range of our approximately 50th percentile target, except that no adjustment was made to the base salary of our chief executive officer. The peer group data was updated to January 1, 2008, by assuming a four percent increase in order to account for the age of the data and the expected average level of executive officer base salary increases in our peer group as prepared by Mercer, Inc. The pay increase was made retroactive to December 1, 2007, consistent with the date on which annual increases became effective for all other employees.

The table below shows the former salary, the adjusted salary, and the percentage increase.

Named Executive Officer	Prior Base Salary (\$)	Current Base Salary (\$)	Percentage Increase (%)
Mr. Rodgers	600,000	600,000	0
Mr. Buss	313,500	329,175	5
Mr. Chatila	269,074	287,909	7
Mr. Keswick	307,798	320,110	4
Mr. Seams	356,023	366,703	3

The Compensation Committee decided to adjust our named executive officers' base salaries because, except for Mr. Seams, they were below the target level of the 50% percentile range for our peer group. Our named executive officers had not had their salaries adjusted since October 2006.

Q: *Did the Compensation Committee grant equity awards to our named executive officers in 2007 and 2008? If so, why?*

A: In 2007, the Compensation Committee granted only performance-based restricted stock units to our named executive officers, among others. These awards are 100% at risk if the performance milestones are not met. The following table sets forth these grants to our named executive officers, including the minimum target and maximum share payouts that may be earned ratably over a five-year period subject to performance and the minimum and maximum share payouts that were eligible to be earned in 2007:

Named Executive Officer	Minimum	Target	Maximum	2007 Target	2007 Maximum
Mr. Rodgers	0	800,000	800,000	160,000	160,000
Mr. Buss	0	400,000	500,000	80,000	100,000
Mr. Chatila	0	320,000	400,000	64,000	80,000
Mr. Keswick	0	320,000	400,000	64,000	80,000
Mr. Seams	0	320,000	400,000	64,000	80,000

Our equity incentive plans are designed to reward long-term performance, align with stockholder interests and provide long-term retention. For all of our named executive officers, 20% of the targeted maximum number of restricted stock units as detailed in the above table may be earned each year from fiscal 2007 to fiscal 2011 if the Company achieves certain performance-based milestones as established by the Compensation Committee each fiscal year. For 2007, the Compensation Committee approved three (3) performance milestones:

The first performance milestone for 2007 applied to all named executive officers. Each officer was eligible to earn 50% of the targeted number of restricted stock units if the Company's semiconductor business met or exceeded a non-GAAP operating income target of \$35 million from the second to the fourth fiscal quarters in 2007. The actual result was non-GAAP operating income of \$52.5 million and thus the milestone was achieved in full.

The second performance milestone for 2007 applied to all executive officers, other than Mr. Rodgers and Mr. Buss. Under that milestone, each of our executive officers was eligible to earn 50% of the targeted number of restricted stock units if the semiconductor business of the Company attained certain threshold levels of semiconductor operating income percentage growth versus a peer group of companies for the remaining three quarters of 2007. The milestone was paid in full if the semiconductor operating income percentage growth was at the 75th percentile level versus a peer group of companies and decreased on a linear scale to no payout at the 25th percentile. The actual result for 2007 was that the Company performed at the 86th percentile and thus the milestone was achieved in full. Each of Messrs. Rodgers and Buss could earn the remaining 50% of their target award for 2007 if the common stock appreciation of Cypress was equal to or greater than the appreciation of the SOXX with both measures calculated on a trailing three-year average. The actual result was that the Company's stock appreciated 207% over the three-year measurement period versus -6% for the SOXX and thus the milestone was achieved in full.

The third milestone for 2007 applied to all named executive officers, other than Mr. Rodgers. Each of our named executive officers was eligible to earn an additional 25% of his target award if the common stock appreciation of Cypress was at least equal to or greater than the appreciation of the SOXX for 2007. The actual result was that the Company's stock appreciated 114% over the one-year measurement period versus -13% for the SOXX and thus the milestone was achieved in full.

If the performance milestones were achieved, the restricted stock units would vest accordingly following the period in which the performance milestone was achieved, upon the Compensation Committee confirming in writing that the performance milestone was achieved. For all of our named executive officers, if the performance milestone is not achieved for the period, the targeted shares for that period are forfeited, returned to the 1994 Stock Plan, and cannot be earned in the future by the grantee.

All restricted stock units are settled, following vesting and certification by the Compensation Committee that the performance milestones have been achieved, in shares of common stock, on a one-share for one-unit basis (with each share adjusted for any stock splits, stock dividends, spin-offs or other changes in capitalization effected without receipt of consideration by Cypress). None of our named executive officers will be eligible to receive any further standard annual focal equity awards until 2010, except that Mr. Rodgers may be granted additional equity awards at the discretion of the Compensation Committee.

In February 2008, the Compensation Committee granted our chief executive officer, Mr. Rodgers, a fully-vested award of 40,000 shares for outstanding progress on various financial, operational and strategic initiatives as well as the strong stock appreciation of 114% in fiscal year 2007.

Q: *Did our named executive officers receive KEBP and PPSP payouts on account of our 2007 fiscal year?*

A: For fiscal year 2007, apart from our chief executive officer, each of our named executive officers was eligible to earn up to the total amounts targeted under each of the Company's bonus plans if the Company achieved its non-GAAP EPS targets and they scored 100% on their CSF goals. Both bonuses are structured such that the total bonus, if achieved at 100%, and combined with the base pay, would bring the named executive officer's cash pay slightly above the targeted 50th percentile of our peer group.

For further details see Grants of Planned-Based Awards table on page 50.

Q: *How difficult would it be for your named executive officers to achieve their CSFs and how likely was it for the Company to achieve the KEBP and PPSP target levels?*

A: In 2007 and 2008, the performance measures established by the Compensation Committee in order to determine any payouts under the KEBP and PPSP are tied, as noted previously, to the Company's actual non-GAAP EPS compared to Plan non-GAAP EPS and to individual CSFs. Even where the Company is profitable and non-GAAP EPS is high, our named executive officers' annual earnings under the KEBP are capped at 200% of targeted bonus, and for the PPSP at 200% of one week's salary. Under the KEBP, a scoring of 65% and below with respect to the established CSF by a named executive officer results in zero payout for the named executive officer as well as his entire organization and in the case of our chief executive officer (in 2007), impacts all named executive officers as well as all other participants. For example, in Q4 of 2007, one of our executive officers scored less than 65% on his CSFs; therefore, his KEBP bonus for that quarter was \$0. Under the KEBP, a scoring of under 80% but greater than 65% with respect to established CSFs by a named executive officer results in his or her payout being decreased by 50% and in the case of our chief executive officer (in 2007), impacts all named executive officers as well as all other participants. During 2007 four named executive officers, including our chief executive officer,

scored less than 80% on their CSFs for Q4 2007 and two named executive officers scored less than 80% on their annual CSFs and thus received only 50% of the bonus due for the measurement period.

Q: *What were the 2007 quarterly and annual performance goals in the CSFs of your named executive officers?*

A: In 2007, each of our named executive officers set quarterly and annual goals against which they were measured for our performance-based bonus plans. For 2007, the annual goals for our chief executive officer included achievement of consolidated annual revenue of \$1.5 billion and a consolidated non-GAAP EPS of \$0.81. Mr. Rodgers' quarterly CSFs included achievement of (i) certain revenue and non-GAAP EPS metrics, (ii) product launch and profitability goals, (iii) specific cycle time standards, (iv) implementation of cost-reduction strategies, and (v) the completion of certain strategic divestitures.

In 2007, our chief financial officer, Brad W. Buss' annual goals included, among other things, metrics related to our annual non-GAAP semiconductor EPS, the achievement of specific cash flow targets for our semiconductor business, completion of certain strategic divestitures, implementation of a plan for the Company's long-term capital structure and the development of a reporting system for the Company's cost-reduction program. His quarterly goals included, among other things, passing our Sarbanes-Oxley compliance review with no material weaknesses, attracting new long-term investors, improving certain business processes, executing on the cost reduction plan, and achievement of certain operating income levels.

For 2007, our executive vice president of new product development, Mr. Paul D. Keswick's annual CSFs focused on the achievement of specific cycle time metrics, on-time product launches and the completion of specific Company-wide infrastructure projects. Examples of his quarterly goals include improving several of Cypress's business processes, the development of new research and development management systems, improvement of product quality requirements, and developing and executing various plans for 2008 product launches. Mr. Keswick also had CSFs related to product research and development, and the formulation and implementation of several engineering and manufacturing initiatives.

In 2007, our executive vice president of sales and marketing, Mr. Christopher A. Seams' annual CSFs included growing the Company's customer base, revenue growth, market penetration, customer service improvement, implementation of sales and marketing infrastructure tools. His quarterly goals included achieving certain revenue performance, developing and implementing programs to improve our customer base for specific product lines, implementation of costs saving initiatives, and other strategic initiatives in the area of product marketing and distribution.

Our executive vice president of the memory and imaging division, Mr. Ahmad R. Chatila's annual and quarterly CSFs included the development and implementation of various aspects of our world class cost savings initiative, achieving certain revenue performance, and developing and implementing various manufacturing goals. His quarterly goals also included cycle time improvement and achieving a specified percentage of profit before tax.

Q: *How does the Compensation Committee determine grant dates for equity awards and the exercise price of stock option awards to our executive officers?*

A: The Compensation Committee approves all stock awards for all executive officers. The grant date and the exercise price are set on the date the awards are approved by the Compensation Committee. Equity grants are made independent of any business/financial consideration. We have no program, plan or practice to coordinate equity grants with the release of material information. The Compensation Committee does not accelerate or delay equity grants in response to material information, nor do we delay the release of information due to plans for making equity grants.

Q: *What is the Company's policy with regard to qualifying compensation to preserve deductibility?*

A: Our management and Compensation Committee have considered the implications of Section 162(m) of the Internal Revenue Code of 1986. This section precludes a public corporation from taking a tax deduction for individual compensation in excess of \$1 million for its chief executive officer or any of its four other highest paid officers. This section also provides for certain exemptions to this limitation, specifically compensation that is performance-based within the meaning of Section 162(m). Only our chief executive officer was paid compensation in excess of \$1 million in fiscal year 2007.

Our Performance Bonus Plan, if approved by our stockholders, will enable us to qualify more compensation as deductible performance-based compensation. Many of our executive compensation plans are designed to qualify payments thereunder as deductible performance-based compensation. In order, however, to preserve flexibility in designing our compensation programs, not all amounts we pay may qualify for deductibility.

Q: *Does Cypress provide any of its named executive officers with change in control benefits?*

A: No.

Q: *What arrangements are in place regarding post-termination compensation?*

A: Our Company does not currently have any post-termination agreement with any of its employees, including our named executive officers.

Q: *Does the Compensation Committee have any discretion to increase or decrease the size of any award or payout under the executive compensation incentive plans? Did it exercise the discretion in 2007?*

A: Yes, the Compensation Committee may, at its discretion, award additional grants of restricted stock units to our chief executive officer, but it did not exercise this discretion in 2007. In 2008, the Compensation Committee, however, granted a discretionary award of 40,000 additional restricted stock units to Mr. Rodgers for his strong leadership that led to the financial and strategic successes of the Company in 2007.

Q: *What retirement benefits does Cypress provide to its named executive officers?*

A: Cypress has non-qualified deferred compensation plans and a 401(k) plan. Employees in the KEBP are eligible to participate in the deferred compensation plans. All employees are eligible to participate in our 401(k) plan. Our Company does not match employee contributions to our 401(k) plan and does not provide any matching or guaranteed returns on our non-qualified deferred compensation plans.

Q: *Does Cypress provide its named executive officers with perquisites?*

A: Cypress does not provide any perquisites to its named executive officers and there were no disclosable perquisites awarded to our named executive officers in 2007. If in the future Cypress provides disclosable perquisites, we will disclose them.

Q: *What other benefits does Cypress provide to its named executive officers?*

A: As with all other employees, all of our named executive officers are eligible to participate in our Employee Stock Purchase Plan ("ESPP") and our employee health benefit programs, including health and dental insurance plans, on the same terms as other employees.

Q: *Have there been any other actions with respect to executive compensation since the end of 2007?*

A: Since the end of fiscal year 2007, the Compensation Committee has determined the Company's achievement of 2007 performance milestones and set the 2008 performance milestones with respect to restricted stock unit awards made to our executive officers and certain other employees. The Committee also reviewed and approved increases in the annual base salary of our executive officers, with the exception of T.J. Rodgers, whose annual base salary remains unchanged. Instead, the Committee increased his bonus target from 150% of his base salary to 175%. This increase further ensures that Mr. Rodgers' compensation is directly connected to his personal performance as well as the success of the Company as a whole. The Compensation Committee adopted our new Performance Bonus Plan, subject to stockholder approval, designated Mr. Rodgers as the sole participant for 2008, and removed Mr. Rodgers as a participant in the KEBP. The Committee made a discretionary award of 40,000 restricted stock units to T.J. Rodgers in recognition of the Company's strong performance in 2007 under Mr. Rodgers' leadership.

Q: *What executive compensation policies is the Company planning to implement going forward?*

A: The Company does not have any new policies it intends to adopt at this time, but will disclose any such policies as they are adopted by the Company.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The information in this report shall not be deemed to be “soliciting material” or “filed” with the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), except to the extent that Cypress specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended or the Exchange Act.

We have reviewed and discussed the foregoing Compensation Discussion and Analysis (which is incorporated by reference in this report) with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in Cypress’s Annual Report on Form 10-K for the year ended December 30, 2007.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Eric A. Benhamou, Chairman
Lloyd Carney
James R. Long

DIRECTOR COMPENSATION
Fiscal Year Ended December 30, 2007

Name	Year	Fees Earned or Paid in Cash (\$)	Stock Awards \$(⁽¹⁾)	Option Awards \$(⁽²⁾)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
T.J. Rodgers ⁽³⁾	2007	0	0	0	N/A	N/A	0	0
W. Steve Albrecht	2007	55,000 ⁽⁴⁾	61,682	129,507	N/A	N/A	0	246,189
Eric A. Benhamou	2007	59,500 ⁽⁵⁾	61,682	119,756	N/A	N/A	0	240,938
Lloyd Carney	2007	51,500 ⁽⁶⁾	61,682	199,683	N/A	N/A	0	312,865
James R. Long	2007	54,000 ⁽⁷⁾	61,682	119,031	N/A	N/A	0	234,713
J. Daniel McCranie	2007	84,500 ⁽⁸⁾	61,682	170,781	N/A	15,231	0	332,194
Evert van de Ven	2007	87,500 ⁽⁹⁾	61,682	194,229	N/A	N/A	0	343,411

- (1) Amounts shown do not reflect compensation actually received by our directors. Instead, the amount shown reflects the compensation cost of stock awards based on the grant date fair value of the equity awards to our directors recognized by our Company during fiscal year 2007 for financial reporting purposes under SFAS 123(R), excluding forfeiture assumption. The grant date fair value of stock awards granted during fiscal year 2007 is \$214,400 for each director.
- (2) Amounts shown do not reflect compensation actually received by our directors. All options in this column were granted to our directors in the previous years, but vested in 2007. None of our directors were granted stock options in 2007. The amount shown reflects the compensation cost of stock option awards based on the grant date fair value of the equity awards to our directors recognized by our Company during fiscal year 2007 for financial reporting purposes under SFAS 123(R), excluding forfeiture assumptions. The assumptions used to calculate the value of stock awards are set forth under Note 7 (Stock-Based Compensation), Notes of Consolidated Financial Statements included in our Company's Annual Report on Form 10-K for fiscal year 2007 filed with the SEC on March 3, 2008.
- (3) Mr. Rodgers does not receive any remuneration for Board services, but he receives remuneration as our chief executive officer.
- (4) Amounts shows \$45,000 2007 Board retainer fees and \$10,000 paid to Mr. Albrecht as chairman of the Audit Committee.
- (5) Amount includes \$2,000 paid to Mr. Benhamou as a one-time special board committee fee for a special assignment by the Board.
- (6) Amount includes \$1,500 paid to Mr. Carney as a one-time special board committee fee for a special assignment by the Board.
- (7) Amount includes \$1,500 paid to Mr. Long as a one-time special board committee fee for a special assignment by the Board.
- (8) Amount includes \$2,000 paid to Mr. McCranie as a one-time special board committee fee for a special assignment by the Board, and \$12,500 earned in 2007, but paid to Mr. McCranie in 2008.
- (9) Amount shows \$45,000 2007 Board retainer fees and \$42,500 paid to Mr. van de Ven for his services on the Operations Committee.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information regarding compensation earned during fiscal years 2007 and 2006 by our chief executive officer, our chief financial officer and our three other most highly compensated executive officers, who we refer to collectively as our named executive officers.

Our named executive officers do not have employment contracts. They are not guaranteed salary increases or cash bonus amounts. We provide no pension benefits and do not match 401(k) contributions. We do not guarantee a return or provide above-market returns on compensation that has been deferred. Executive officers receive no benefits or perquisites that are not available to other employees. We believe our compensation program holds our executive officers accountable for the financial and competitive performance of Cypress, and for their individual contribution toward that performance.

Name and Principal Position	Year	Salary ⁽¹⁾ (\$)	Bonus (\$)	Stock Awards ⁽²⁾ (\$)	Option Awards ⁽³⁾ (\$)	Non-Equity Incentive Plan Compensation ⁽⁴⁾ (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ⁽⁵⁾ (\$)	All Other Compensation (\$)	Total Compensation (\$)
T.J. Rodgers President, Chief Executive Officer and Director	2007	643,266	0	5,053,151	3,064,326	809,153	1,698,843	0	11,268,739
	2006	572,825	0	350,578	2,977,185	785,898	478,763	0	5,165,249
Brad W. Buss Executive Vice President, Finance & Administration, Chief Financial Officer	2007	309,880	0	2,122,525	717,970	209,809	814	0	3,360,998
	2006	302,596	0	6,080	873,203	224,461	N/A	0	1,406,340
Ahmad R. Chatila ⁽⁶⁾ Executive Vice President, Memory and Imaging Division	2007	276,313 ⁽⁷⁾	0	1,685,580	272,820	141,280	N/A	0	2,375,993
Paul D. Keswick Executive Vice President, New Product Development	2007	325,175 ⁽⁷⁾	0	1,702,334	305,790	167,234	N/A	0	2,500,533
	2006	297,098	0	5,700	377,390	223,343	N/A	0	903,531
Christopher A. Seams, Executive Vice President, Sales and Marketing	2007	356,013	0	1,695,992	405,611	233,904	110,004	0	2,801,524
	2006	363,066	0	5,130	544,858	283,217	14,708	50,000 ⁽⁸⁾	1,260,979

- (1) Represents actual salary earned in fiscal 2006 and 2007. Salary includes base pay and payment in respect of accrued vacation and holidays. There were no quantifiable perquisites or personal benefits to report.
- (2) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amount shown reflects the compensation cost of stock awards based on the grant date fair value of the equity awards recognized by our Company during fiscal year 2007 for financial reporting purposes under SFAS 123(R), excluding forfeiture assumptions. The assumptions used to calculate the value of stock awards are set forth under Note 7 (Stock-Based Compensation) of the Notes of Consolidated Financial Statements included in our Company's Annual Report on Form 10-K for fiscal year 2007, filed with the SEC on March 3, 2008. All of our named executive officers received only performance-based restricted stock units in 2007. The grant date fair value of the 2007 performance-based awards were as follows: \$3,408,800 for Mr. Rodgers, \$2,052,000 for Mr. Buss, and \$1,636,213 for each of Messrs. Chatila, Keswick and Seams.
- (3) Amounts shown do not reflect the compensation actually received by the named executive officer, but reflect the grant date compensation cost of stock option awards recognized by our Company during fiscal years 2007 and 2006 for financial reporting purposes under SFAS 123(R), excluding forfeiture assumption. The assumptions used to calculate the value of stock awards are set forth under Note 7 (Stock-Based Compensation) Notes of Consolidated Financial Statements included in our Company's Annual Report on Form 10-K for fiscal year 2007, filed with the SEC on March 3, 2008. All options in this column were granted to our named executive officers in the previous years, but vested in 2007. None of our executive officers were granted stock options in 2007.
- (4) Includes bonus amounts earned under our Key Employee Bonus Plan ("KEBP") and our Performance Profit Sharing Plan ("PPSP"). Bonuses under our KEBP and PPSP are paid in arrears of the quarter in which they are earned. The amounts earned are paid out in the fiscal quarter following the year earned, provided the employee is still employed by Cypress at the time of the payout, subject to conditions specified under the Plan. The amounts shown also reflect \$2,500 and \$924 paid to Messrs. Rodgers and Keswick, respectively, under our Patent Award Program. Our Patent Award Program is open to all Cypress employees, including our executive officers. Amount shown also includes \$750 paid to Mr. Keswick under our Company's Author Incentive Program. The Author Incentive Program is open to all Cypress employees, and is designed to reward employees for writing technical articles that are published.
- (5) Amount represents above-market or preferential earnings during 2007 and 2006 on compensation that was deferred in or prior to fiscal years 2007 and 2006 under our 1995 Deferred Compensation Plan (Plan I) and 2005 Deferred Compensation Plan (Plan II).
- (6) Mr. Chatila became a named executive officer in 2007.
- (7) Includes gross amount of \$17,376 related to a twenty-one years service cash award paid to Mr. Keswick and \$5,174 service cash award paid to Mr. Chatila. The actual amount paid to Messrs. Keswick and Chatila were after tax amounts. All Cypress employees are eligible to receive service awards for continuous employment with Cypress for seven, fourteen and twenty-one years.
- (8) Represents cash distribution made to Mr. Seams in 2006 under our deferred compensation plans.

The following table shows all plan-based awards granted to the named executive officers during fiscal year 2007, which ended December 30, 2007. The option awards and the unvested portion of the stock awards identified in the table below are also reported in the Outstanding Equity Awards at Fiscal Year-End table.

GRANTS OF PLAN-BASED AWARDS

Fiscal Year Ended December 30, 2007

Name and Principal Position	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards (\$/SH)	Grant Date Fair Value of Stock and Option Awards ⁽³⁾ (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
T.J. Rodgers President, Chief Executive Officer and Director	Q1	N/A	185,284	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	185,960	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	188,230	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	191,538	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	180,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	800,000	800,000	N/A	N/A	N/A	3,408,800
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	Q1	N/A	52,583	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	52,783	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	54,442	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	58,998	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	52,668	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	400,000	500,000	N/A	N/A	N/A	2,052,000
Ahmad R. Chatila Executive Vice President, Memory and Imaging Division	Q1	N/A	45,131	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	45,303	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	46,727	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	51,602	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	46,065	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	320,000	400,000	N/A	N/A	N/A	1,636,213
Paul D. Keswick Executive Vice President, New Product Development	Q1	N/A	51,626	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	51,823	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	53,452	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	57,374	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	51,218	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	320,000	400,000	N/A	N/A	N/A	1,636,213
Christopher A. Seams Executive Vice President, Sales and Marketing	Q1	N/A	59,715	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	59,942	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	61,827	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	65,724	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	58,672	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	5/11/07	N/A	N/A	N/A	N/A	320,000	400,000	N/A	N/A	N/A	1,636,213

- (1) There are no outstanding future payments under our Key Employee Bonus Plan (“KEBP”). All amounts earned under our KEBP are paid in the quarter after which they were earned. The annual component is paid in the quarter following the fiscal year in which it was earned. See table below for actual amounts paid to our named executive officers under the KEBP and PPSP.
- (2) In 2007, we granted performance-based restricted stock units to some employees in senior management positions, including our named executive officers, under our 1994 Stock Plan. Except for Mr. Rodgers, none of our named executive officers is eligible to receive additional stock awards until 2010. The performance-based stock awards in this column vest ratably over a five-year period if the annual performance metrics are met. Performance metrics are set annually by the Compensation Committee of the Company’s Board of Directors. The Compensation Committee also determines annually if the performance metrics have been achieved. Mr. Rodgers’ maximum targeted restricted stock unit award for fiscal year 2007 was 160,000. Mr. Buss’ maximum targeted restricted stock unit award for fiscal year 2007 was 100,000 in the aggregate. Each of Messrs. Chatila, Keswick and Seams had a maximum target to earn 80,000 restricted stock units in fiscal year 2007.
- (3) Reflects the fair value of the 2007 target performance-based restricted stock units. The restricted stock units can be earned ratably over five (5) years. The fair value for each year’s target restricted stock units is determined when the Compensation Committee sets the performance milestones for the applicable year. Mr. Rodgers’ maximum targeted restricted stock unit award for fiscal year 2007 was 160,000. Mr. Buss’ maximum targeted restricted stock unit award for fiscal year 2007 was 100,000 in the aggregate. Each of Messrs. Chatila, Keswick and Seams had a maximum target to earn 80,000 restricted stock units in fiscal year 2007.

GRANTS OF PLAN-BASED AWARDS (NON-EQUITY)

Fiscal Year Ended December 30, 2007

Name and Principal Position	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ("KEBP")			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ("PPSP")		
		Threshold (\$)	Earned/ Paid (\$)	Target (Plan) (\$)	Threshold (\$)	Earned/ Paid (\$)	Target (Plan) (\$)
T.J. Rodgers President, Chief Executive Officer and Director	Q1	N/A	202,868	180,000	N/A	3,709	5,284
	Q2	N/A	174,809	180,000	N/A	4,668	5,960
	Q3	N/A	201,911	180,000	N/A	8,751	8,230
	Q4	N/A	55,604	180,000	N/A	6,194	11,538
	Annual	N/A	148,140	180,000	N/A	N/A	N/A
Total			783,332	900,000		23,322	31,012
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	Q1	N/A	39,439	50,160	N/A	1,905	2,423
	Q2	N/A	43,233	50,160	N/A	2,307	2,623
	Q3	N/A	56,074	50,160	N/A	4,787	4,282
	Q4	N/A	15,218	52,668	N/A	3,658	6,330
	Annual	N/A	43,188	52,668	N/A	N/A	N/A
Total			197,152	255,816		12,657	15,658
Ahmad R. Chatila Executive Vice President, Memory and Imaging Division	Q1	N/A	32,815	43,052	N/A	1,585	2,079
	Q2	N/A	35,605	43,052	N/A	1,900	2,251
	Q3	N/A	45,175	43,052	N/A	3,857	3,675
	Q4	N/A	0	46,065	N/A	2,447	5,537
	Annual	N/A	17,896	46,065	N/A	N/A	N/A
Total			131,491	221,286		9,789	13,542
Paul D. Keswick Executive Vice President, New Product Development	Q1	N/A	32,993	49,248	N/A	1,594	2,379
	Q2	N/A	39,299	49,248	N/A	2,097	2,575
	Q3	N/A	51,326	49,248	N/A	4,382	4,204
	Q4	N/A	13,266	51,218	N/A	3,188	6,156
	Annual	N/A	17,414	51,218	N/A	N/A	N/A
Total			154,298	250,178		11,261	15,314
Christopher A. Seams Executive Vice President, Sales and Marketing	Q1	N/A	48,720	56,964	N/A	2,353	2,751
	Q2	N/A	45,566	56,964	N/A	2,431	2,979
	Q3	N/A	60,230	56,964	N/A	5,142	4,863
	Q4	N/A	13,665	58,672	N/A	3,285	7,052
	Annual	N/A	52,512	58,672	N/A	N/A	N/A
Total			220,693	288,236		13,211	17,645

OUTSTANDING EQUITY AWARDS

Fiscal Year Ended December 30, 2007

Name and Principal Position	Option Awards ⁽¹⁾				Stock Awards ⁽²⁾				
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Units of Stock Unvested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Unearned Shares, Units or Other Rights that Have Not Vested (\$)
T.J. Rodgers President, Chief Executive Officer and Director	200,000	0	0	8.37	09/17/08	0	0	0	0
	300,000	0	0	16.73	03/16/11	0	0	0	0
	300,000	0	0	21.50	09/30/09	0	0	0	0
	400,000	0	0	23.19	12/14/10	0	0	0	0
	300,000	0	0	10.50	08/07/12	0	0	0	0
	221,666	128,334	0	21.34	01/02/14	0	0	0	0
	261,333	18,667	0	7.56	04/11/13	0	0	0	0
	186,666	163,334	0	14.55	02/25/15	0	0	0	0
	416	319	0	36.38	02/25/15	0	0	0	0
	729	559	0	14.55	02/25/15	0	0	0	0
	348,333 ⁽³⁾	31,667 ⁽³⁾	0	11.40	02/03/15	0	0	0	0
	120,416	304,584	0	14.54	06/30/16	0	0	0	0
	0	0	0	0.00	N/A	50,000 ⁽⁴⁾	1,840,000	0	0
	0	0	0	0.00	N/A	0	0	800,000 ⁽⁵⁾	17,152,000
	45,000	120,000	0	15.23	08/15/15	0	0	0	0
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	20,000 ⁽⁶⁾	55,000 ⁽⁶⁾	0	15.23	08/15/15	0	0	0	0
	7,466	24,534	0	16.43	10/27/16	0	0	0	0
	0	0	0	0.00	N/A	8,534	314,051	0	0
	0	0	0	0.00	N/A	0	0	500,000 ⁽⁷⁾	10,720,000
	550	550	0	7.37	03/27/13	0	0	0	0
Ahmad R. Chatila Executive Vice President, Memory and Imaging Division	600	600	0	7.37	03/27/13	0	0	0	0
	666	7,334	0	19.60	10/23/13	0	0	0	0
	667	6,667	0	9.03	10/08/14	0	0	0	0
	500	7,000	0	14.55	02/25/15	0	0	0	0
	166	2,334	0	14.55	02/25/15	0	0	0	0
	1,833	28,417	0	13.92	07/18/15	0	0	0	0
	1,120	25,760	0	16.43	10/27/16	0	0	0	0
	0	0	0	0.00	N/A	5,974	219,843	0	0
	0	0	0	0.00	N/A	0	0	400,000 ⁽⁸⁾	8,576,000
	0	0	0	0.00	N/A	0	0	0	0

Name and Principal Position	Option Awards ⁽¹⁾					Stock Awards ⁽²⁾			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares of Stock Unvested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested (\$)
Paul D. Keswick Executive Vice President, New Product Development	50,000	0	0	16.73	03/16/11	0	0	0	0
	50,000	0	0	21.50	09/30/09	0	0	0	0
	50,000	0	0	23.19	12/14/10	0	0	0	0
	2,250	2,250	0	7.37	03/27/13	0	0	0	0
	38,000	22,000	0	19.60	10/23/13	0	0	0	0
	32,000	28,000	0	14.55	02/25/15	0	0	0	0
	7,000	23,000	0	16.43	10/27/16	0	0	0	0
	0	0	0	0.00	N/A	8,000	294,400	0	0
	0	0	0	0.00	N/A	0	0	400,000 ⁽⁸⁾	8,576,000
	144,000	0	0	16.84	10/08/11	0	0	0	0
Christopher A. Seams Executive Vice President, Sales and Marketing	40,000	0	0	16.84	10/08/11	0	0	0	0
	15,000	0	0	6.44	10/01/12	0	0	0	0
	40,000	0	0	6.44	10/01/12	0	0	0	0
	85,500	4,500	0	7.56	04/11/13	0	0	0	0
	4,700	0	0	17.15	08/22/13	0	0	0	0
	13,700	0	0	9.30	05/19/13	0	0	0	0
	57,000	33,000	0	21.34	01/02/14	0	0	0	0
	37,333	32,667	0	14.55	02/25/15	0	0	0	0
	6,300	20,700	0	16.43	10/27/16	0	0	0	0
	0	0	0	0.00	N/A	7,200	264,960	0	0
	0	0	0.00	N/A	0	0	400,000 ⁽⁸⁾	8,576,000	

- (1) All stock option awards described in this table were made under our 1994 Stock Plan. Except as noted under footnotes (3) and (6), options granted before 2007 under our 1994 Stock Plan typically have a ten-year term, vest over a five-year period of employment and have an exercise price equal to market value on the date of grant.
- (2) All restricted stock unit awards described in this table were made under the 1994 Stock Plan. Except for the 100,000 restricted stock units awarded to Mr. Rodgers in 2006, which vest annually over two (2) years, restricted stock units awarded before 2007 typically have a ten-year term, and vest annually over a five-year period of employment, with a one-year cliff, for service awards and upon approval of performance by the Compensation Committee for performance-based awards.
- (3) Mr. Rodgers was granted options to purchase a total of 380,000 shares of common stock in February 2005. These 380,000 stock options vest quarterly over twelve (12) fiscal quarters, subject to accelerated vesting if certain performance conditions are met.

- (4) In recognition of his outstanding contribution and the value that was created as a result of the SunPower IPO, Mr. Rodgers received a one-time award of 100,000 restricted stock units that vest annually over two (2) years. The restricted stock units will completely vest on June 30, 2008.
- (5) Represents performance-based restricted stock units awarded to Mr. Rodgers in 2007, which vest ratably over five (5) years if the performance metrics are met. Performance metrics are set annually by the Compensation Committee of the Company. Mr. Rodgers' target for 2007 was 160,000 restricted stock units. Mr. Rodgers did not receive any other awards and is eligible to receive additional equity awards at the discretion of the Compensation Committee.
- (6) Stock option awards granted to Mr. Buss start vesting one (1) year from the date of grant, then vest monthly over four (4) years thereafter, and expire ten (10) years from the date of grant.
- (7) Represents performance-based restricted stock units awarded to Mr. Buss in 2007, which vest ratably over five (5) years if the performance metrics are met. Performance metrics are set annually by the Compensation Committee of the Company. Mr. Buss' maximum target for 2007 was 100,000 restricted stock units. Mr. Buss did not receive any other awards in 2007 and is not eligible to receive any further awards until 2010.
- (8) Represents performance-based restricted stock units awarded to Messrs. Chatila, Keswick and Seams in 2007, which vest ratably over five (5) years if the performance metrics are met. Performance metrics are set annually by the Compensation Committee of the Company. Each of Messrs. Chatila, Keswick and Seams had a maximum target of 80,000 restricted stock units in 2007. They did not receive any other awards in 2007 and are not eligible to receive any further awards until 2010.

OPTION EXERCISES AND STOCK VESTING

Fiscal Year Ended December 30, 2007

Name of Executive Officer	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise ⁽¹⁾ (\$)	Number of Shares Acquired Upon Vesting (#) ⁽²⁾	Value Realized Upon Vesting (\$)
T.J. Rodgers	200,000	2,014,300	50,000	1,164,500
Brad W. Buss	60,000	1,023,689	2,133	64,289
Ahmad R. Chatila	159,867	2,766,218	1,493	44,999
Paul D. Keswick	305,500	5,567,058	2,000	60,280
Christopher A. Seams	225,445	3,294,438	1,800	54,252

- (1) Amount shown reflects the difference between the option exercise price and the sale price of the underlying shares multiplied by the number of shares covered by the option. Actual amounts received were substantially less due to required federal and state withholding taxes.
- (2) Amount shown reflects total number of shares that vested in 2007. The actual amount released to the named executive officers was net of shares withheld to pay the taxes due upon vesting.

NON-QUALIFIED DEFERRED COMPENSATION

Fiscal Year Ended December 30, 2007

Name of Executive Officer	Executive Contribution in the Last Fiscal Year (\$)	Registrant Contribution in the Last Fiscal Year (\$)	Aggregate Earnings in the Last Fiscal Year (\$) ⁽¹⁾	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year End (\$)
T.J. Rodgers	0	0	1,698,843	0	4,591,362
Brad W. Buss	41,736 ⁽²⁾	0	814	0	42,549
Ahmad R. Chatila	0	0	0	0	0
Paul D. Keswick	0	0	0	0	0
Christopher A. Seams	0	0	110,004	50,000	555,473

- (1) Amount represents aggregate earnings to Messrs. Rodgers and Seams in 2007. There are no guaranteed payments under our deferred compensation plans.
- (2) Mr. Buss contributed this amount under our Deferred Compensation (Plan I), which provides certain key employees, including our executive officers, with the option to defer receipt of compensation in order to accumulate funds for retirement. Our Deferred Compensation (Plan I) is a voluntary, non-tax qualified plan. Under this Plan, compensation may be deferred until termination or other specified dates the participant chooses. Deferred amounts may be credited with earnings based on the performance of investment choices made available by the 401(k) Investment Plan Committee.

OTHER DISCLOSURES

Compensation Committee Interlocks and Insider Participation

During fiscal year 2007, the following directors were members of our Compensation Committee: Mr. Eric A. Benhamou, Mr. Lloyd Carney, and Mr. James R. Long. None of the Compensation Committee's members has at any time been an officer or employee of Cypress. No member of the Compensation Committee was or is one of our officers or employees.

None of Cypress's named executive officers serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving on Cypress's Board or Compensation Committee.

Certain Relationships and Related Transactions

Apart from service on our Board, there are no additional relationships between our directors and our Company, nor are there any related party transactions between our directors and our Company.

Indebtedness of Executive Officers

In 2001, prior to the Sarbanes-Oxley Act of 2002 and before Mr. Seams became a 16(b) officer, the Company gave a loan to Mr. Seams in the amount of \$16,000 to purchase shares of common stock in Cypress's subsidiary, Silicon Magnetic Systems. The principal amount of the loan did not exceed \$16,000 in the fiscal year 2007.

Section 16(a) Beneficial Ownership Reporting Compliance

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

Based solely on our review of the copies of such forms received by us, we believe that during the fiscal year ended December 30, 2007, all Section 16(a) filing requirements applicable to our officers, directors and 10% stockholders were satisfied.

OTHER MATTERS

We know of no other matters to be submitted at the Annual Meeting. If any other matters properly come before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote the shares they represent as the Board of Directors may recommend.

It is important that your stock be represented at the Annual Meeting, regardless of the number of shares you hold. You are, therefore, urged to execute and return the accompanying proxy in the envelope provided or to vote by telephone or over the Internet at your earliest convenience.

FOR THE BOARD OF DIRECTORS

A handwritten signature in black ink, appearing to read 'Brad W. Buss', is written over a faint, rectangular background.

Brad W. Buss
Corporate Secretary

Dated: March 25, 2008

**APPENDIX A
TO THE 2008 PROXY STATEMENT**

**CYPRESS SEMICONDUCTOR CORPORATION
1994 STOCK PLAN**

(As amended and restated on May 9, 2008)

1. PURPOSES OF THE PLAN. THE PURPOSES OF THIS STOCK PLAN ARE:

- to promote the long term success of the Company's business;
- to attract and retain the best available personnel for positions of substantial responsibility; and
- to provide long term incentive to Employees, Consultants and Outside Directors that is aligned with the long term interest of all stockholders.

2. COMPONENTS OF THE PLAN. THE PLAN PROVIDES FOR:

- the discretionary granting of Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units to Employees, Consultants and Outside Directors, which Options may be either Incentive Stock Options (for Employees only) or Nonstatutory Stock Options, as determined by the Administrator at the time of grant; and
- the grant of Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units to Outside Directors pursuant to an automatic, non-discretionary formula.

3. STOCK SUBJECT TO THE PLAN. Fifteen million three hundred thousand (15,300,000) Shares are the maximum aggregated number of Shares authorized for issuance under the Plan. The Shares may be authorized, but unissued, or reacquired Common Stock. Any Shares subject to Options or Stock Appreciation Rights shall be counted against the numerical limits of this section 3 as one Share for every Share subject thereto. Any Shares of Restricted Stock or Restricted Stock Units with a per Share or unit purchase price lower than 100% of Fair Market Value on the date of grant shall be counted against the numerical limits of this section 3 as 1.88 Shares for every one Share subject thereto. To the extent that a Share that was subject to an Award that counted as 1.88 Shares against the Plan reserve pursuant to the preceding sentence is recycled back into the Plan under the next paragraph of this section 3, the Plan shall be credited with 1.88 Shares.

Subject to Section 16 of the Plan, If any Shares that have been subject to an option or SAR (whether granted under this Plan or the Terminated Plans) cease to be subject to such Option or SAR (other than through exercise of the Option or SAR), or if any Option or SAR granted hereunder or thereunder is forfeited, or any Option or SAR otherwise terminates prior to the issuance of Common Stock to the Participant, the Shares that were subject to such Option or SAR shall again be available for distribution in connection with future awards under the Plan (unless the Plan has terminated).

Shares that have actually been issued under the Plan upon exercise of an Option shall not in any event be returned to the Plan and shall not become available for future distribution under the Plan. With respect to SARs, when an SAR is exercised, the full number of shares subject to the SAR or portion thereof being exercised shall be counted against the numerical limits of this section 3 above as one Share for every Share subject thereto, regardless of the number of Shares used to settle the SAR upon exercise. For example, if an SAR covering 100 shares is exercised by a Participant and the Participant receives 80 Shares (with 20 Shares withheld to cover the SAR exercise price), the Plan Share reserve shall be debited the full 100 Shares and such Shares will not be available for future distribution under the Plan. Similarly, if Shares are withheld to satisfy the minimum statutory withholding obligations arising in connection with the vesting, exercise or issuance of any Award (or delivery of the related Shares), such withheld Shares will not be available for future issuance under the Plan.

Shares of Restricted Stock (including Restricted Stock Units) that do not vest and thus are forfeited back to or repurchased by the Company shall become available for future grant or sale under the Plan (unless the Plan has

terminated). Shares of Restricted Stock or Restricted Stock Units that vest shall not in any event be returned to the Plan and shall not become available for future distribution under the Plan.

Notwithstanding the foregoing and, subject to adjustment as provided in section 16 of the Plan, the maximum number of Shares that may be issued upon the exercise of Incentive Stock Options will equal the aggregate Share number stated in the first paragraph of section 3, plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Shares that become available for issuance under the Plan pursuant to the second and third paragraphs of this section 3.

4. ADMINISTRATION OF THE PLAN.

4.1 Procedure.

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

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

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

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

4.1.5 Administration With Respect to Automatic Grants to Outside Directors. Automatic grants to Outside Directors shall be pursuant to a non-discretionary formula as set forth in section 10 hereof and therefore shall not be subject to any discretionary administration.

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

4.2.1 to determine the Fair Market Value of the Common Stock, in accordance with subsection 23.19 of the Plan;

4.2.2 to select the Consultants, Employees and Outside Directors to whom Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units may be granted hereunder;

4.2.3 to determine whether and to what extent Options, Stock Appreciation Rights, Restricted Stock or Restricted Stock Units are granted hereunder;

4.2.4 to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

4.2.5 to approve forms of agreement, including electronic forms, for use under the Plan;

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

4.2.7 to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

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

4.2.9 to modify or amend each Award (subject to subsection 18.3 of the Plan), including the discretionary authority to extend the post-termination exercisability period of Options or SARs longer than is otherwise provided for in the Plan (but not longer than the original Option or SAR term);

4.2.10 to allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or SAR or the vesting or issuance of Restricted Stock or Restricted Stock Units that number of Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

4.2.11 to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

4.2.12 to determine the terms and restrictions applicable to Awards; and

4.2.13 to make all other determinations deemed necessary or advisable for administering the Plan.

4.3 Effect of Administrator's Decision. The Administrator's decisions, determinations and interpretations shall be final and binding on all Participants and any other holders of Awards.

5. ELIGIBILITY.

5.1 Discretionary Awards. Nonstatutory Stock Options, SARs, Restricted Stock and Restricted Stock Unit Awards may be granted to Employees, Consultants and Outside Directors. Incentive Stock Options may be granted only to Employees. If otherwise eligible, an Employee, Consultant or Outside Director who has been granted an Award may be granted additional Awards.

5.2 Outside Director Awards. Outside Directors shall also receive automatically granted Awards pursuant to section 10 hereof.

6. LIMITATIONS.

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

6.1.1 of Shares subject to a Participant's incentive stock options granted by the Company, any Parent or Subsidiary, which

6.1.2 become exercisable for the first time during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6.1.2, incentive stock options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the time of grant.

6.2 Neither the Plan nor any Award shall confer upon any Participant any right with respect to continuing the Participant's employment or consulting relationship or tenure as a director with the Company, nor shall they interfere in any way with the Participant's, the Company's, or the Company's stockholders', right to

terminate such employment or consulting relationship or tenure as a Director with the Company at any time, with or without cause.

6.3 The following limitations shall apply to grants of Options and SARs to Employees:

6.3.1 No Employee shall be granted, in any fiscal year of the Company, Options and SARs to purchase, in the aggregate, more than 1,000,000 Shares.

6.3.2 The foregoing limitation shall be adjusted proportionately in connection with any change in the Company's capitalization as described in subsection 16.1.

6.3.3 If an Option or SAR is cancelled (other than in connection with a transaction described in section 16), the cancelled Option or SAR will be counted against the limit set forth in subsection 6.3.1. For this purpose, if the exercise price of an Option or SAR is reduced (which would require prior stockholder approval pursuant to section 22 hereof), the transaction will be treated as a cancellation of the Option or SAR and the grant of a new Option or SAR.

7. **TERM OF PLAN.** The plan was amended and restated in 2007. It shall continue in effect until March 25, 2017, unless terminated earlier under section 16 of the plan.

8. **TERM OF OPTION OR SAR.** The term of each option or SAR shall be eight (8) years from the date of grant or such shorter term as may be provided in the notice of grant, option or SAR agreement. In the case of an incentive stock option granted to a participant who, at the time the incentive stock option is granted, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the company or any parent or subsidiary, the term of the incentive stock option shall be five (5) years from the date of grant or such shorter term as may be provided in the notice of grant or option agreement.

9. **OPTION AND SAR EXERCISE PRICE; OPTION CONSIDERATION.**

9.1 **Exercise Price.** The per share exercise price for the Shares to be issued pursuant to exercise of an Option or SAR shall be determined by the Administrator, subject to the following:

9.1.1 In the case of an Incentive Stock Option

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

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

9.1.2 In the case of a Nonstatutory Stock Option or an SAR, the per Share exercise price shall be no less than one hundred percent (100%) of Fair Market Value per Share on the date of grant.

9.2 **Waiting Period and Exercise Dates.** At the time an Option or SAR is granted, the Administrator shall fix the period within which the Option or SAR may be exercised and shall determine any conditions which must be satisfied before the Option or SAR may be exercised. In so doing, the Administrator may specify that an Option or SAR may not be exercised until the completion of a service period or until certain performance milestones are achieved.

9.3 **Form of Option Consideration.** Except with respect to automatic stock option grants to Outside Directors, the Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such form of consideration shall be set forth in the Notice of

Grant or Option Agreement and may, as determined by the Administrator (and to the extent consistent with Applicable Laws), consist entirely of:

9.3.1 cash;

9.3.2 check;

9.3.3 promissory note;

9.3.4 other previously-owned Shares which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised;

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

9.3.6 any combination of the foregoing methods of payment; or

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

10. AUTOMATIC GRANTS TO OUTSIDE DIRECTORS.

10.1 Procedure for Grants. All grants to Outside Directors under this section 10 shall be automatic and non-discretionary and shall be made strictly in accordance with the following provisions:

10.1.1 No person shall have any discretion to select which Outside Directors shall be granted Awards or to determine the number of Shares or units to be covered by Awards granted to Outside Directors.

10.1.2 Each Outside Director shall be automatically granted 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.

10.1.3 At each of the Company's annual stockholder meetings commencing in 2008, and on May 11, 2007 (A) each Outside Director who was an Outside Director on the date of the prior year's annual stockholder meeting shall be automatically granted an restricted stock unit covering 10,000 units/Shares, and (B) each Outside Director who was not an Outside Director on the date of the prior year's annual stockholder meeting shall receive an restricted stock unit covering the number of units/Shares determined by multiplying 10,000 Shares by a fraction, the numerator of which is the number of days since the Outside Director received their First Option, and the denominator of which is 365, rounded down to the nearest whole unit/Share (either (A) or (B) is referred to herein as the "Annual RSU Grant").

10.1.4 Notwithstanding the provisions of subsection 10.1.3 hereof, in the event that the Annual RSU Grant hereunder would cause the number of units/Shares subject to outstanding Awards plus the number of units/Shares previously acquired upon exercise or vesting of Awards to exceed the number of units/Shares available for issuance under the Plan, then each such automatic grant shall be for that number of units/Shares determined by dividing the total number of units/Shares remaining available for grant by the number of Outside Directors on the automatic grant date, pro-rated for each Outside Director who was not an Outside Director on the date of the prior year's annual stockholder meeting as set forth in 10.1.3(B). Any further Annual RSU Grants shall then be deferred until such time, if any, as additional Shares become available for grant under the Plan.

10.1.5 The terms of a First Option granted hereunder on or after the date of the 2007 Company annual stockholder meeting shall be as follows:

10.1.5.1 The term of the Option shall be eight (8) years.

10.1.5.2 the Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in subsection 10.3 hereof.

10.1.5.3 the exercise price per Share shall be 100% of the Fair Market Value per Share on the date of grant of the Option.

10.1.5.4 the Option shall become exercisable as to 1/60th of the covered Shares each month, so as to become 100% vested on the five year anniversary of the grant date, subject to the Participant maintaining Continuous Status as a Director on each vesting date.

10.1.6 The terms of an Annual RSU Grant hereunder shall be as follows:

10.1.6.1 The Annual RSU Grant shall vest as to 20% each year on the date immediately prior to the Company's regularly scheduled annual stockholders meeting, so as to be 100% vested on the day prior to the annual stockholders meeting held approximately five years following the grant date, subject to the Participant maintaining Continuous Status as a Director on each vesting date.

10.2 Consideration for Exercising Outside Director Stock Options. The consideration to be paid for the Shares to be issued upon exercise of an automatic Outside Director Option shall consist entirely of cash, check, other Shares of previously owned Common Stock which have a fair market value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, and, for Options granted on or after the 2004 Company annual stockholder meeting, to the extent permitted by Applicable Laws, delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price, or any combination of such methods of payment.

10.3 Post-Directorship Exercisability.

10.3.1 Termination of Status as a Director. If an Outside Director ceases to serve as a Director, he may, but only within ninety (90) days, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, after the date he or she ceases to be a Director of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise an Option at the date of such termination, or if he or she does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

10.3.2 Disability of Director. Notwithstanding the provisions of subsection 10.3.1 above, in the event a Director is unable to continue his or her service as a Director with the Company as a result of his or her Disability, he or she may, but only within six (6) months, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, from the date of termination, exercise his or her Option to the extent he or she was entitled to exercise it at the date of such termination. To the extent that he or she was not entitled to exercise the Option at the date of termination, or if he or she does not exercise such Option (which he was entitled to exercise) within the time specified herein, the Option shall terminate.

10.3.3 Death of Director. In the event of the death of a Participant:

10.3.3.1 during the term of the Option who is at the time of his death a Director of the Company and who shall have been in Continuous Status as a Director since the date of grant of the Option, the Option may be exercised, at any time within six (6) months, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, following the date of death, by the Director's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Participant continued living and remained in Continuous Status a Director for twelve (12) months after the date of death; or

10.3.3.2 within thirty (30) days after the termination of Continuous Status as a Director, the Option may be exercised, at any time within six (6) months, or, for Options granted on or after the 2004 Company annual stockholder meeting, within one year, following the date of death, by the Participant's estate

or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

11. EXERCISE OF OPTION OR SAR.

11.1 Procedure for Exercise; Rights as a Stockholder. Any Option or SAR granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Option or SAR Agreement. An Option or SAR may not be exercised for a fraction of a Share.

An Option or SAR shall be deemed exercised when the Company receives: (i) written or electronic notice of exercise (in accordance with the Option Agreement) from the person entitled to exercise the Option, and (ii) for Options only, full payment for the Shares with respect to which the Option is exercised. Full payment for Options may consist of any consideration and method of payment authorized by the Administrator and permitted by the Option Agreement and the Plan. Shares issued upon exercise of an Option or SAR shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option or SAR. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option or SAR is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in section 16 of the Plan.

Exercising an Option or SAR in any manner shall decrease the number of Shares thereafter available for sale under the Option or SAR by the number of Shares as to which the Option or SAR is exercised.

11.2 Termination of Service. Upon termination of a Participant's Continuous Status as an Employee, Consultant or Director, other than upon the Participant's death or Disability, the Participant may exercise the Option or SAR, but only within such period of time as is specified in the Notice of Grant, Option or SAR Agreement, and, unless otherwise determined by the Administrator, only to the extent that the Participant was entitled to exercise it at the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Notice of Grant or Option Agreement). In the absence of a specified time in the Notice of Grant, Option or SAR Agreement, the Option or SAR shall remain exercisable for thirty days following the Participant's termination of Continuous Status as an Employee, Consultant or Director. If, at the date of termination, the Participant is not entitled to exercise the entire Option or SAR, the Shares covered by the unexercisable portion of the Option or SAR shall revert to the Plan. If, after termination, the Participant does not exercise the Option or SAR within the time specified by the Administrator, the Option or SAR shall terminate, and the Shares covered by such Option or SAR shall revert to the Plan.

11.3 Disability of Participant. In the event that a Participant's Continuous Status as an Employee, Consultant or Director terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR at any time within six (6) months or such other period of time not exceeding twelve (12) months, as is specified in the Notice of Grant, Option or SAR Agreement, except in the case of automatic stock option grants to Outside Directors, which shall be exercised as specified in section 10. Unless otherwise determined by the Administrator, any such Options or SARs may only be exercised to the extent that the Participant was entitled to exercise it at the date of such termination (but in no event later than the expiration of the term of such Option or SAR as set forth in the Notice of Grant, Option or SAR Agreement). If, at the date of termination, the Participant is not entitled to exercise his or her entire Option or SAR, the Shares covered by the unexercisable portion of the Option or SAR shall revert to the Plan. If, after termination, the Participant does not exercise his or her Option or SAR within the time specified herein, the Option or SAR shall terminate, and the Shares covered by such Option or SAR shall revert to the Plan.

11.4 Death of Participant. In the event of the death of a Participant (other than an Outside Director with respect to his or her automatic stock option grant):

11.4.1 during the term of the Option or SAR who is at the time of his or her death an Employee, Consultant or Director of the Company and who shall have been in Continuous Status as an Employee, Consultant

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

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

12. STOCK APPRECIATION RIGHTS.

12.1 The SAR shall entitle the Participant, by exercising the SAR, to receive from the Company an amount equal to the excess of (x) the Fair Market Value of the Common Stock covered by exercised portion of the SAR, as of the date of such exercise, over (y) the Fair Market Value of the Common Stock covered by the exercised portion of the SAR, as of the date on which the SAR was granted; provided, however, that the Administrator may place limits on the amount that may be paid upon exercise of a SAR; and

12.2 SARs shall be exercisable, in whole or in part, at such times as the Administrator shall specify in the Participant's Award Agreement;

12.3 Form of Payment. The Company's obligation arising upon the exercise of a SAR may be paid in Common Stock or in cash, or in any combination of Common Stock and cash, as the Administrator, in its sole discretion, may determine, but only as specified in the Notice of Grant or SAR Agreement. Shares issued upon the exercise of a SAR shall be valued at their Fair Market Value as of the date of exercise.

12.4 Rule 16b-3. SARs granted hereunder shall contain such additional restrictions as may be required to be contained in the Plan or Award Agreement in order for the SAR to qualify for the maximum exemption provided by Rule 16b-3.

13. RESTRICTED STOCK/RESTRICTED STOCK UNITS.

13.1 Grant of Restricted Stock/Restricted Stock Units. Subject to the terms and conditions of the Plan, Restricted Stock or Restricted Stock Units may be granted to Employees, Consultants and Outside Directors at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine (i) the number of Shares subject to a Restricted Stock or Restricted Stock Unit Award granted to any Participant (provided that during any Fiscal Year, no Participant shall receive more than 800,000 Shares in the aggregate of Restricted Stock or Restricted Stock Unit Awards) (ii) whether the form of the award shall be Shares or rights to acquire Shares (i.e., Restricted Stock Units), and (iii) the conditions that must be satisfied, which may include or consist entirely of performance-based milestones, upon which is conditioned the grant or vesting of Restricted Stock or Restricted Stock Units. For Restricted Stock Units, each such unit shall be the equivalent of one Share of Common Stock for purposes of determining the number of Shares subject to an Award. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Restricted Stock or Restricted Stock Unit, notwithstanding its vesting. The Company shall issue (or cause to be issued) such stock certificate promptly after the Restricted Stock or Restricted Stock Unit vests. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in section 16 of the Plan.

13.2 Other Terms. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of Restricted Stock and Restricted Stock Unit Awards granted under the Plan. Restricted Stock and Restricted Stock Unit Awards shall be subject to the terms, conditions, and restrictions determined by the Administrator at the time of grant, which may include such performance-based milestones as are determined appropriate by the Administrator, which may be Performance Goals, or for Restricted Stock or Restricted Stock Unit Awards not intended to qualify as "performance-based compensation" under Code Section 162(m), may be other performance-based milestones. The Administrator may require the recipient to sign a

Restricted Stock or Restricted Stock Unit Agreement as a condition of the Award. Any certificates representing the shares of Stock awarded shall bear such legends as shall be determined by the Administrator.

13.3 Restricted Stock or Restricted Stock Unit Award Agreement. Each Restricted Stock or Restricted Stock Unit grant shall be evidenced by an Award agreement that shall specify the purchase price (if any) and such other terms and conditions as the Administrator, in its sole discretion, shall determine; provided, however, that if the Restricted Stock or Restricted Stock Unit Award has a purchase price, such purchase price must be paid no later than the earlier of (i) eight (8) years following the date of grant, or (ii) the vesting date.

13.4 Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock or Restricted Stock Units as “performance-based compensation” under Section 162(m) of the Code, the Administrator, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Administrator on or before the latest date permissible to enable the Restricted Stock or Restricted Stock Units to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Restricted Stock or Restricted Stock Units which is intended to qualify under Section 162(m) of the Code, the Administrator shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Restricted Stock under Section 162(m) of the Code (e.g., in determining the Performance Goals).

14. LEAVES OF ABSENCE. Unless the administrator provides otherwise, and subject to applicable laws, vesting of awards granted hereunder shall cease during any unpaid leave of absence. Moreover, unless the administrator provides otherwise, any employee who transfers his or her employment to a subsidiary and receives an equity incentive covering such subsidiary’s equity securities in connection with such transfer, shall cease vesting in awards granted under this plan until such time, if any, as such employee transfers from the employ of such subsidiary or another subsidiary directly back to the employ of the company.

15. NON-TRANSFERABILITY OF AWARDS. Unless determined otherwise by the administrator, an award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the participant, only by the participant. If the administrator makes an award transferable, such award shall contain such additional terms and conditions as the administrator deems appropriate; provided, however, that in no event may an award be transferred in exchange for consideration.

16. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION OR SIMILAR TRANSACTION, DISSOLUTION, MERGER, ASSET SALE OR CHANGE OF CONTROL.

16.1 Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each outstanding Award, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award or forfeiture or repurchase of unvested Restricted Stock or Restricted Stock Units, the price per share, if any, of Common Stock covered by each such outstanding Award, the number of Shares issuable pursuant to the automatic grant provisions of section 10, the limit on the number of Shares subject to an Option or SAR that may be granted to an Employee in any fiscal year under subsection 6.3.1, as well as the limit of the number of Shares that may be issued as Restricted Stock or Restricted Stock Unit Awards under subsection 13.1, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been “effected without receipt of consideration.” Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option or Restricted Stock award.

16.2 Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, with respect to discretionary Awards granted under the Plan (but not with respect to Awards granted to

Outside Directors) the Board may, in the exercise of its sole discretion in such instances, declare that any such Award shall terminate as of a date fixed by the Board and give each Participant the right to exercise his or her Option or SAR as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable or accelerate the vesting of a Participant's Restricted Stock or Restricted Stock Unit Award.

16.3 Merger or Asset Sale. In the event of a merger of the Company with or into another corporation, or the sale of substantially all of the assets of the Company, each outstanding Award shall be assumed or an equivalent Award shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. With respect to a discretionary Award granted under the Plan (but not with respect to Options granted to Outside Directors under section 10), the Administrator may, in the exercise of its sole discretion and in lieu of such assumption or substitution, provide for the Participant to have the right to exercise such Option or SAR as to all of the Optioned Stock, including as to Shares which would not otherwise be exercisable or provide for the accelerated vesting of Restricted Stock or Restricted Stock Units. With respect to Options and restricted stock units granted to Outside Directors under section 10, in the event that the successor corporation does not agree to assume such Options and restricted stock units or to substitute equivalent options or rights, each such outstanding Option and restricted stock unit shall become fully vested and exercisable, including as to Shares and units as to which it would not otherwise be exercisable, unless the Board, in its discretion, determines otherwise.

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

For the purposes of this subsection, the Award shall be considered assumed if, following the merger or sale of assets, the Award confers the right to purchase (or, in the case of Restricted Stock or Restricted Stock Units without a purchase price, receive), for each Share subject to the Award immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the merger or sale of assets was not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR or vesting of the Restricted Stock or Restricted Stock Unit Award, for each Share subject to the Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

16.4 Spin-Off or Split-Off. Subject to any required action by the stockholders of the Company, and at the sole discretion of the Board, the number and/or type of shares covered by each outstanding Award, the number and/or type of shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award or forfeiture or repurchase of unvested Restricted Stock or Restricted Stock Units and the price per share, if any, of Common Stock covered by each such outstanding Award may be appropriately and proportionately adjusted, or such other actions as are appropriate may be taken, to account for any increase or diminution in value of an Award resulting from a spin-off, split-off or similar transaction involving equity securities of a Subsidiary or former Subsidiary. Any such discretionary adjustment or action shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

17. AWARD GRANT DATE. The date of grant of an award shall be, for all purposes, the date on which the administrator makes the determination granting such option or restricted stock award, or such other later date as is determined by the administrator. Notice of the determination shall be provided to each participant within a reasonable time after the date of such grant.

18. AMENDMENT AND TERMINATION OF THE PLAN.

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

18.2 Stockholder Approval. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary and desirable to comply with Applicable Laws. Shares may not be added to the Plan (other than pursuant to sections 3 or 16.1 hereof) without obtaining stockholder approval.

18.3 Effect of Amendment or Termination. No amendment, alteration, suspension or termination of the Plan shall impair the rights of any Participant, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company.

19. CONDITIONS UPON ISSUANCE OF SHARES.

19.1 Legal Compliance. Shares shall not be issued pursuant to the exercise of an Option or SAR or vesting of a Restricted Stock or Restricted Stock Unit Award unless the exercise of such Option or SAR or vesting of such Restricted Stock or Restricted Stock Unit Award and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

19.2 Investment Representations. As a condition to the exercise of an Option or SAR or purchase of Restricted Stock or Restricted Stock Unit, the Company may require the person exercising such Option or SAR or purchasing such Restricted Stock or Restricted Stock Unit to represent and warrant at the time of any such exercise or purchase that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required.

20. LIABILITY OF COMPANY.

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

20.2 Awards Exceeding Allotted Shares. If the Shares covered by an Award exceed, as of the date of grant, the number of Shares which may be issued under the Plan without additional stockholder approval, such Award shall be void with respect to such excess Shares, unless stockholder approval of an amendment sufficiently increasing the number of Shares subject to the Plan is timely obtained in accordance with subsection 18.2 of the Plan.

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

22. NO REPRICING. The Administrator may not permit the repricing, including by way of exchange, of any award, without receiving prior stockholder approval.

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

23.1 "Administrator" means the Board or any of its Committees as shall be administering the Plan, in accordance with section 4 of the Plan.

23.2 "Applicable Laws" means the legal requirements relating to the administration of stock option plans under federal and state corporate and securities laws, the Code and any stock exchange on which the Common Stock is listed or quoted.

23.3 "Award" means an award hereunder of an Option, Stock Appreciation Right, Restricted Stock or Restricted Stock Unit.

- 23.4 “Board” means the Board of Directors of the Company.
- 23.5 “Code” means the Internal Revenue Code of 1986, as amended.
- 23.6 “Committee” means a committee appointed by the Board or its Compensation Committee in accordance with section 4 of the Plan.
- 23.7 “Common Stock” means the Common Stock of the Company.
- 23.8 “Company” means Cypress Semiconductor Corporation, a Delaware corporation.
- 23.9 “Consultant” means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services and who is compensated for such services; provided, however, that the term “Consultant” shall not include Outside Directors, unless such Outside Directors are compensated for services to the Company other than through payment of director’s fees.
- 23.10 “Continuous Status as a Director” means that the Director relationship is not interrupted or terminated.
- 23.11 “Continuous Status as an Employee, Consultant or Director” means that the employment, consulting or Director relationship with the Company or any Parent or Subsidiary is not interrupted or terminated. Continuous Status as an Employee, Consultant or Director shall not be considered interrupted in the case of: (i) any leave of absence approved by the Company, including sick leave, military leave, or any other personal leave; provided, however, that for purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company policies) or statute; provided, further, that on the ninety-first (91st) day of any such leave (where reemployment is not guaranteed by contract or statute) the Participant’s Incentive Stock Option shall cease to be treated as an Incentive Stock Option and will be treated for tax purposes as a Nonstatutory Stock Option; or (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor.
- 23.12 “Director” means a member of the Board.
- 23.13 “Disability” means total and permanent disability as defined in Section 22(e)(3) of the Code.
- 23.14 “Employee” means any person, including Officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient to constitute “employment” by the Company.
- 23.15 “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- 23.16 “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:
- 23.16.1 If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the New York Stock Exchange, the Fair Market Value of a Share of Common Stock shall be the closing sale price for such stock (or the mean of the closing bid and asked prices, if no sales were reported), as quoted on such exchange (or the exchange with the greatest volume of trading in Common Stock) or system on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or
- 23.16.2 If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean of the closing bid and asked prices for such stock on the date of such determination (or, in the event such date is not a trading day, the trading day immediately prior to the date of such determination), as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

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

23.17 “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

23.18 “Nonstatutory Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

23.19 “Notice of Grant” means a written notice evidencing certain terms and conditions of an individual Option grant. The Notice of Grant is part of the Option Agreement.

23.20 “Officer” means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

23.21 “Option” means a stock option granted pursuant to the Plan or the Terminated Plans.

23.22 “Option Agreement” means a written agreement between the Company and a Participant evidencing the terms and conditions of an individual Option grant. The Option Agreement is subject to the terms and conditions of the Plan.

23.23 “Optioned Stock” means the Common Stock subject to an Option or SAR.

23.24 “Outside Director” means a Director who is not an Employee or Consultant.

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

23.26 “Participant” means an Employee, Consultant or Outside Director who holds an outstanding Option or Restricted Stock award.

23.27 “Performance Goals” means the goal(s) (or combined goal(s)) determined by the Administrator (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Administrator, the performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles (“GAAP”), in accordance with accounting principles established by the International Accounting Standards Board (“IASB Principles”) or which may be adjusted when established to exclude any items otherwise includable under GAAP or under IASB Principles: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (vi) earnings per share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the S&P 500 Index, the Philadelphia Semiconductor Sector Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating margin, (xvii) market share, (xviii) contract awards or backlog, (xix) overhead or other expense reduction, (xx) credit rating, (xxi) objective customer indicators, (xxii) new product invention or innovation, (xxiii) attainment of research and development milestones, (xxiv) improvements in productivity, (xxv) attainment of objective operating goals, and (xxvi) objective employee metrics.

23.28 “Plan” means this 1994 Plan, as amended.

23.29 “Restricted Stock” means shares of Common Stock granted pursuant to section 12 of the Plan.

23.30 “Rule 16b-3” means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

23.31 “Stock Appreciation Right” or “SAR” means a Stock Appreciation Right granted pursuant to section 12 of the Plan.

23.32 “Share” means a share of the Common Stock, as adjusted in accordance with section 16 of the Plan.

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

**APPENDIX B
TO THE 2008 PROXY STATEMENT**

**CYPRESS SEMICONDUCTOR CORPORATION
PERFORMANCE BONUS PLAN**

1. Purposes of the Plan. The Plan is intended to increase stockholder value and the success of the Company by motivating key executives to: (1) perform to the best of their abilities, and (2) achieve the Company's objectives. The Plan's goals are to be achieved by providing such executives with incentive awards based on the achievement of goals relating to the performance of the Company or upon the achievement of objectively determinable individual performance goals. The Plan is intended to permit the payment of bonuses that may qualify as performance-based compensation under Code section 162(m).

2. Definitions.

(a) "Award" means, with respect to each Participant, the award determined pursuant to Section 8(a) below for a Performance Period. Each Award is determined by a Payout Formula for a Performance Period, subject to the Committee's authority under Section 8(a) to eliminate or reduce the Award otherwise payable.

(b) "Base Salary" means as to any Performance Period, the Participant's annualized salary rate on the last day of the Performance Period. Such Base Salary shall be before both (a) deductions for taxes or benefits, and (b) deferrals of compensation pursuant to Company-sponsored plans.

(c) "Board" means the Board of Directors of the Company.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the Compensation Committee of the Board.

(f) "Company" means Cypress Semiconductor Corporation or any of its subsidiaries (as such term is defined in Code Section 424(f)).

(g) "Determination Date" means the latest possible date that will not jeopardize a Target Award or Award's qualification as Performance-Based Compensation.

(h) "Fiscal Quarter" means a fiscal quarter of the Company.

(i) "Fiscal Year" means a fiscal year of the Company.

(j) "Maximum Award" means as to any Participant for any Performance Period, \$3,000,000.

(k) "Participant" means an executive officer of the Company participating in the Plan for a Performance Period.

(l) "Payout Formula" means as to any Performance Period, the formula or payout matrix established by the Committee pursuant to Section 7 in order to determine the Awards (if any) to be paid to Participants. The formula or matrix may differ from Participant to Participant.

(m) "Performance-Based Compensation" means compensation that is intended to qualify as "performance-based compensation" within the meaning of Section 162(m).

(n) "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Committee, the performance measures for any performance period will be any one or more of the following objective performance criteria, applied to either the Company as a whole or, except with respect to stockholder return metrics, to a region, business unit, affiliate or business segment, and measured either on an absolute basis or relative to a pre-established target, to a previous period's results or to a designated comparison group, and, with respect to financial metrics, which may be determined in accordance with United States Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles") or which may be adjusted when established to exclude any items otherwise includable under GAAP or under IASB Principles: (i) cash flow (including operating cash flow or free cash flow), (ii) revenue (on an absolute basis or adjusted for currency effects), (iii) gross margin, (iv) operating expenses or operating expenses as a percentage of revenue, (v) earnings (which may include earnings before interest and taxes, earnings before taxes and net earnings), (vi) earnings per share, (vii) stock price, (viii) return on equity, (ix) total stockholder return, (x) growth in stockholder value relative to the moving average of the S&P 500 Index,

the Philadelphia Semiconductor Sector Index or another index, (xi) return on capital, (xii) return on assets or net assets, (xiii) return on investment, (xiv) economic value added, (xv) operating profit or net operating profit, (xvi) operating margin, (xvii) market share, (xviii) contract awards or backlog, (xix) overhead or other expense reduction, (xx) credit rating, (xxi) objective customer indicators, (xxii) new product invention or innovation, (xxiii) attainment of research and development milestones, (xxiv) improvements in productivity, (xxv) attainment of objective operating goals, and (xxvi) objective employee metrics.

(o) “Performance Period” means any Fiscal Quarter or Fiscal Year, or such other longer period but not in excess of five Fiscal Years, as determined by the Committee in its sole discretion.

(p) “Plan” means this Performance Bonus Plan.

(q) “Plan Year” means the Company’s fiscal year.

(r) “Section 162(m)” means Section 162(m) of the Code, or any successor to Section 162(m), as that Section may be interpreted from time to time by the Internal Revenue Service, whether by regulation, notice or otherwise.

(s) “Target Award” means the target award payable under the Plan to a Participant for the Performance Period, expressed as a percentage of his or her Base Salary or a specific dollar amount, as determined by the Committee in accordance with Section 6.

3. Plan Administration.

(a) The Committee shall be responsible for the general administration and interpretation of the Plan and for carrying out its provisions. Subject to the requirements for qualifying compensation as Performance-Based Compensation, the Committee may delegate specific administrative tasks to Company employees or others as appropriate for proper administration of the Plan. Subject to the limitations on Committee discretion imposed under Section 162(m), the Committee shall have such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following powers and duties, but subject to the terms of the Plan:

(i) discretionary authority to construe and interpret the terms of the Plan, and to determine eligibility, Awards and the amount, manner and time of payment of any Awards hereunder;

(ii) to prescribe forms and procedures for purposes of Plan participation and distribution of Awards; and

(iii) to adopt rules, regulations and bylaws and to take such actions as it deems necessary or desirable for the proper administration of the Plan.

(b) Any rule or decision by the Committee that is not inconsistent with the provisions of the Plan shall be conclusive and binding on all persons, and shall be given the maximum deference permitted by law.

4. Eligibility. The employees eligible to participate in the Plan for a given Performance Period shall be executive officers of the Company who are designated by the Committee in its sole discretion. No person shall be automatically entitled to participate in the Plan.

5. Performance Goal Determination. The Committee, in its sole discretion, shall establish the Performance Goals for each Participant for the Performance Period. Such Performance Goals shall be set forth in writing prior to the Determination Date.

6. Target Award Determination. The Committee, in its sole discretion, shall establish a Target Award for each Participant. Each Participant’s Target Award shall be determined by the Committee in its sole discretion, and each Target Award shall be set forth in writing prior to the Determination Date.

7. Determination of Payout Formula or Formulae. On or prior to the Determination Date, the Committee, in its sole discretion, shall establish a Payout Formula or Formulae for purposes of determining the Award (if any) payable to each Participant. Each Payout Formula shall (a) be set forth in writing prior to the Determination Date, (b) be based on a comparison of actual performance to the Performance Goals, (c) provide for the payment of a Participant’s Target Award if the Performance Goals for the Performance Period are achieved, and (d) provide for an Award greater than or less than the Participant’s Target Award, depending upon the extent to which actual performance exceeds or falls below the Performance Goals. Notwithstanding the preceding, in no event shall a Participant’s Award for any Performance Period exceed the Maximum Award.

8. Determination of Awards; Award Payment.

(a) Determination and Certification. After the end of each Performance Period, the Committee shall certify in writing (which may be by approval of the minutes in which the certification was made) the extent to which the Performance Goals applicable to each Participant for the Performance Period were achieved or exceeded. The Award for each Participant shall be determined by applying the Payout Formula to the level of actual performance that has been certified by the Committee. Notwithstanding any contrary provision of the Plan, the Committee, in its sole discretion, may eliminate or reduce the Award payable to any Participant below that which otherwise would be payable under the Payout Formula but shall not have the right to increase the Award above that which would otherwise be payable under the Payout Formula.

(b) Right to Receive Payment. Each Award under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right to payment of an Award other than as an unsecured general creditor with respect to any payment to which he or she may be entitled. A Participant needs to be employed by the Company through the payment date in order to be eligible to receive an Award payout hereunder.

(c) Form of Distributions. The Company shall distribute all Awards to the Participant in cash.

(d) Timing of Distributions. Subject to Section 8(e) below, the Company shall distribute amounts payable to Participants as soon as is practicable following the determination and written certification of the Award for a Performance Period.

(e) Deferral. The Committee may defer payment of Awards, or any portion thereof, to Covered Employees as the Committee, in its discretion, determines to be necessary or desirable to preserve the deductibility of such amounts under Section 162(m). In addition, the Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash that would otherwise be delivered to a Participant under the Plan. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion.

9. Term of Plan. Subject to its approval at the 2008 annual meeting of the Company's stockholders, the Plan shall first apply to the 2008 Plan Year. Once approved by the Company's stockholders, the Plan shall continue until terminated under Section 10 of the Plan.

10. Amendment and Termination of the Plan. The Committee may amend, modify, suspend or terminate the Plan, in whole or in part, at any time, including the adoption of amendments deemed necessary or desirable to correct any defect or to supply omitted data or to reconcile any inconsistency in the Plan or in any Award granted hereunder; provided, however, that no amendment, alteration, suspension or discontinuation shall be made which would (i) impair any payments to Participants made prior to such amendment, modification, suspension or termination, unless the Committee has made a determination that such amendment or modification is in the best interests of all persons to whom Awards have theretofore been granted; provided further, however, that in no event may such an amendment or modification result in an increase in the amount of compensation payable pursuant to such Award or (ii) cause compensation that is, or may become, payable hereunder to fail to qualify as Performance-Based Compensation. To the extent necessary or advisable under applicable law, including Section 162(m), Plan amendments shall be subject to stockholder approval. At no time before the actual distribution of funds to Participants under the Plan shall any Participant accrue any vested interest or right whatsoever under the Plan except as otherwise stated in this Plan.

11. Withholding. Distributions pursuant to this Plan shall be subject to all applicable federal and state tax and withholding requirements.

12. At-Will Employment. No statement in this Plan should be construed to grant any employee an employment contract of fixed duration or any other contractual rights, nor should this Plan be interpreted as creating an implied or an expressed contract of employment or any other contractual rights between the Company and its employees. The employment relationship between the Company and its employees is terminable at-will. This means that an employee of the Company may terminate the employment relationship at any time and for any reason or no reason.

13. Successors. All obligations of the Company under the Plan, with respect to awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

14. Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any award, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

15. Nonassignment. The rights of a Participant under this Plan shall not be assignable or transferable by the Participant except by will or the laws of intestacy.

16. Governing Law. The Plan shall be governed by the laws of the State of California, without regard to conflicts of law provisions thereunder.

CYPRESS IN THE COMMUNITY

Cypress contributes to a wide variety of community organizations and projects including schools that encourage careers in math and science, hospitals and food banks that support the underprivileged, and entrepreneurial environmental groups. Our employees donate their time and money to these causes, helping to make Cypress one of the best places to work in Silicon Valley, according to *San Jose Magazine*.

SECOND HARVEST FOOD BANK

Cypress has donated the most pounds of food per employee to the Second Harvest Food Bank for each of the past 16 years. The food bank provides meals to more than 156,000 people each month. Pictured at right is the “AmeriCAN Idol” entry in Cypress’s 2007 employee canned food sculpture competition.



SOLAR DECATHLON

Cypress donated SunPower solar panels to a team of students at Santa Clara University participating in the U.S. Department of Energy’s 2007 Solar Decathlon—a competition to build the most attractive, energy-efficient house. The team from the California school placed third in the competition.



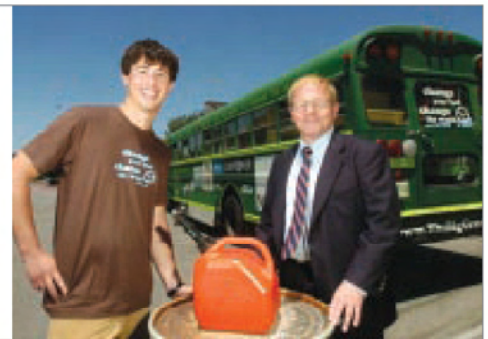
FETAL MATERNITY MOBILE CLINIC

Cypress is sole sponsor of the Santa Clara Valley Medical Center’s Fetal Maternity Mobile Clinic. The clinic on wheels provides fetal monitoring services to low-income expectant mothers. In recent years, Cypress has also supported a spinal cord rehabilitation clinic and a cancer treatment facility at the hospital.



DARTMOUTH’S “BIG GREEN BUS”

Cypress donated a SunPower solar panel to Dartmouth undergraduates who retrofitted a school bus to run on vegetable oil. Electricity from the solar panel—attached to the roof of the bus—heats the vegetable oil to optimal viscosity. The panel also powered laptop PCs used by the students to blog a 2007 cross-country journey.



FRANK S. GREENE SCHOLARSHIP PROGRAM

Cypress supports the Frank S. Greene Scholars Program, part of the California Alliance of African American Educators (CAAAE). All of the math and science program’s graduates have gone on to college. Pictured are some of the students that have benefited from this program, which includes onsite computer training at Cypress.



CYPRESS PROGRAMMABILITY IS EVERYWHERE

Cypress's programmable and proprietary devices help many of the world's leading products perform at their best, providing unparalleled flexibility and ease-of-use. As a result, the company nearly doubled the size of its PSoC customer base in 2007 to 6,301 customers, up from 3,371 a year earlier. Below are just a few examples of the diverse products that have been transformed with proprietary Cypress technology.



BLACKBERRY™ PEARL™ SMARTPHONE



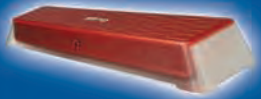
MOTOROLA E8 PHONE



THERMABLADE SKATE BLADE



IPUBLISH MERIAN SCOUT NAVIGATOR



SLINGBOX PRO



INDESIT COOKTOP 53086 VRO632TD



HP COMPAQ 6910P NOTEBOOK PC



SEQUIAM SMARTSCAN LOCK



JVC CAMCORDER GZ-MG330R



CONTINENTAL AUTOMOTIVE
ENGINE/TRANSMISSION CONTROLLER



SEMTEK SLIMSWIPE MAGNETIC CARD READER



KORG M3 KEYBOARD



PIONEER X-Z9 AUDIO SYSTEM



PHILIPS SONICARE FLEXCARE TOOTHBRUSH

SUNPOWER SHINES

SunPower achieved record revenue of US\$774 million in fiscal 2007 targeting commercial and industrial installations, power plants, new homes and residential retrofits. Pictured at right is a 14-MW installation completed in 2007 at Nellis Air Force Base in Nevada.



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