CYPRESS 2009 ANNUAL REPORT AND 2010 PROXY STATEMENT

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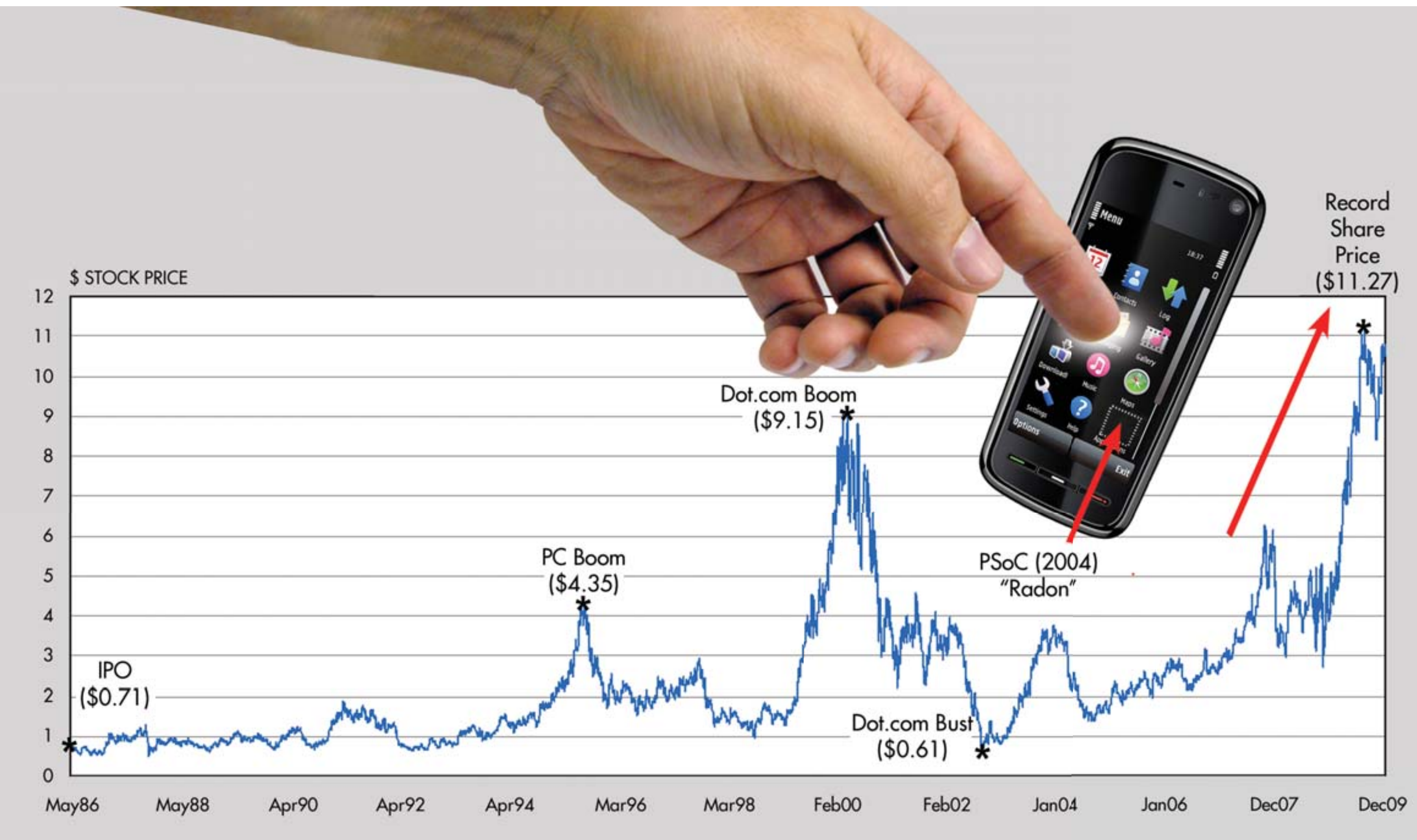
CYPRESS

2009 ANNUAL REPORT

"We expect to end 2009 with profit, positive cash flow, and bright prospects for 2010."

T.J. Rodgers, 2008 Annual Report



Cypress PSoC® Touch Solutions Drive Market Valuation

PSoC-based touchscreen solutions have driven Cypress's shares to a record level, eclipsing the heights of the dot.com boom.

CYPRESS

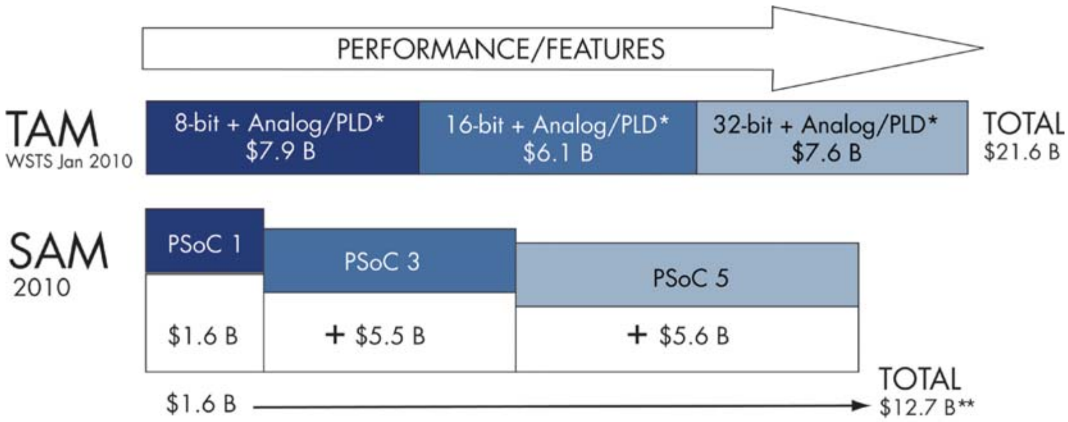
PERFORM

NEW PSoC FAMILIES DRIVE 10x MARKET EXPANSION TO $15 BILLION

In 2009, Cypress introduced two new PSoC® programmable system-on-chip architectures — PSoC 3 and PSoC 5—along with the PSoC Creator™ integrated design environment. Cypress's new 8-bit PSoC 3 and 32-bit PSoC 5 architectures improve PSoC 1 analog performance by 20x in speed, and 16x in accuracy, and CPU performance by 7.5x-25x. The new product families expand Cypress's addressed market from $1.6 billion to more than $15 billion in 2012. PSoC Creator is a unique design tool that allows engineers to "design the way they think," using schematic-based design capture and dozens of certified, pre-packaged peripherals to speed the design of common end-product features.

PSoC SERVED AVAILABLE MARKET

Includes Analog, Logic, MCUs, Touch



* Portion of Standard Analog/Logic market accessible to PSoC.
**SAM forecast to grow to $15.5 B by 2012.

PSoC 3 AND PSoC 5 TARGET GROWING MARKETS

PSoC 3 and PSoC 5 extend the PSoC platform's reach into new markets by adding high-precision programmable analog capabilities and more processing power. Here are three new market opportunities served by our new families:

"PSoC Creator is unlike other embedded design tools we have seen. It combines the speed and convenience of pre-built peripheral functions with the flexibility to create and reuse customized IP."

Rich Wawrzyniak
Sr. Analyst, ASIC and SoC
Semico Research Corp.

"Cypress's PSoC Creator is a unique design environment. You can quickly and easily create, test and implement complex functions and drop them on the board."

Tom Gray
Design Engineer
Agilent Technologies Inc.

PORTABLE MEDICAL DEVICES

($170 million market in 2011)

Portable medical devices such as glucose meters are ideal candidates for Cypress's new PSoC 3 and PSoC 5 solutions. Biometric and optical sensing demand precision analog capabilities and a configurable, single-chip total solution, which also performs calculations, drives LCD displays, enables touch-based capacitive-sensing interfaces, and provides communication links, such as USB.

MOBILE ACCESSORIES

($250 million market in 2010)

New applications and add-ons for mobile devices are proliferating in such areas as digital audio and infotainment systems. PSoC's ability to provide both sensing and interface controls makes it a natural fit for this growing market.

SYSTEM MANAGEMENT

($250 million market in 2012)

PSoC is the ideal solution for system management, the function overseeing voltage sequencing, monitoring, power management, fan control and other system functions, often simultaneously.

FELLOW SHAREHOLDERS:

INTRODUCTION*

In the last sentence of the 2008 Annual Report, I wrote that "we expect to end 2009 with profit, positive cash flow, and bright prospects for 2010." My optimism was tempered by the fact that the as-yet unnamed "Great Recession" had begun in the fourth quarter of 2008, driving our share price below $3.00, and that our internal plan was to lose money for the first two quarters of 2009 before returning to profitability. Nonetheless, we believed that we would be cash-flow positive and return to profitability quickly when the recession eased, because we had cut costs dramatically, for example, by proactively reducing our headcount by about 900 during the last year. As shown in *Figure 1*, by year-end 2009, Cypress had no debt and $333 million in cash and investments, an improvement in net cash of $746 million over year-end 2005, our last year as a Moore's Law company, when we had $187 million in cash and $600 million in debt.

CASH AND DEBT

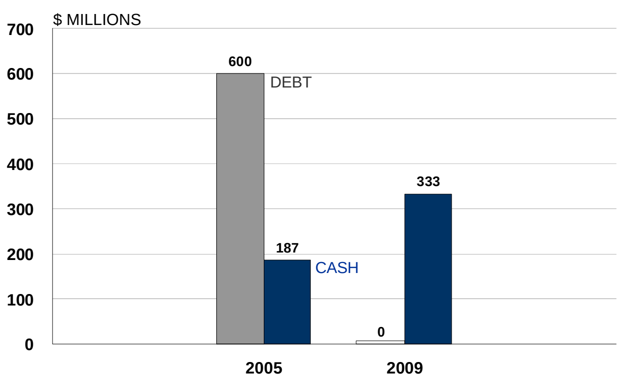


Figure 1. Cypress had $333 million in cash and investments with no debt at year-end 2009, a $746 million net cash improvement over the year-end of our last year as a Moore's Law company, 2005, when we had $187 million in cash and $600 million in debt.

This turnaround in our net cash position is primarily attributable to the successful execution of our 2006 Mission Statement, shown in *Figure 2*.

In 1992, we adopted a strategy for Cypress to grow with new ideas from internally funded startup companies. Members of the "Federation of Entrepreneurs," as we called it, used Cypress as their venture capital source and were encouraged to start new businesses outside the Cypress mainstream. Our two most successful startups were SunPower—which was spun out to Cypress shareholders in September 2008 in a stock dividend worth $2.6 billion, or $16.42 per share—and Cypress MicroSystems, which was founded in 1999 and invented the Programmable System-on-Chip: PSoC®. By 2006, it was clear to us that PSoC was the most important new chip in Cypress's history, and we revised our mission to focus on inventing and selling programmable solutions. While that may sound like a simple shift in product focus, it really demanded that we transform Cypress from top to bottom.

CYPRESS MISSION STATEMENT

WE WILL TRANSFORM CYPRESS FROM A TRADITIONAL BROAD-LINE SEMICONDUCTOR COMPANY TO THE LEADING SUPPLIER OF PROGRAMMABLE SOLUTIONS IN SYSTEMS EVERYWHERE.

Figure 2. Cypress's Mission, adopted in 2006, dedicated the company to its new and very successful PSoC® franchise, as well as its other programmable product lines. This change was very difficult. It meant abandoning Cypress's Moore's Law process development legacy—my personal technical area of expertise—and going "fab-lite," using foundries, rather than just our own internal wafer fabrication plants; and for me personally to relinquish my philosophy that "Real men have fabs." The changes, while culturally painful, significantly improved Cypress's cash flow and profitability.

For example, I personally participated in the invention of every generation of Cypress technology from our first 1.2-micron technology in 1983 to our last 90-nanometer technology, which we brought to market in 2003. To pursue our new mission, Cypress—the company that prided itself on the innovative and low-cost development of Moore's Law technologies—had to give up following Moore's Law. We also had to move our SRAM manufacturing to foundries that provided cutting-edge processes. Internally, we focused instead on developing value-added features, such as analog capability, for our existing wafer manufacturing processes. We also transferred those processes to low-cost Chinese foundries so that we could ramp up our wafer output rapidly without large capital invest-

* This report is written so that shareholders with a time constraint can read the introduction, the 15 figures and captions, and the conclusion—and get 80% of the information.

CYPRESS VISION OF THE FUTURE

	OLD CYPRESS		MISSION ACHIEVED
1 MARKET	Selling commodity standard products to 6,000 distribution and OEM customers at cost-based prices.	➡	Designing in proprietary programmable solutions with the engineers and architects of 20,000 worldwide customers at value-based prices.
2 TECHNOLOGY	Applying Moore's Law to rapidly reduce the cost of SRAM and logic products in internal fabs with limited upside capacity and a fixed cost structure.	➡	Creating innovative processes to enhance our programmable systems in both internal and flex fabs with upside potential and a variable cost structure.
3 MANUFACTURING	Providing good customer service with 95% on-time delivery to original schedule, 20 ppm quality and 6-12 week lead times.	➡	Providing exceptional customer service with 100% on-time delivery to original schedule (95% to customer request), 2 ppm quality and 2-4 week lead times.
4 DESIGN	Spending 25% of sales on R&D to create standard products in one year with engineers and first-pass yield.	➡	Spending 17% of sales on R&D to create IP-based, programmable products in months with engineers and first-pass yield.
5 PROFIT	Following the boom and bust cycles of the semiconductor industry in profitability and share price.	➡	Producing consistent 20%-plus profit with excellent multiples and share price.
6 SERVICE	Reactively respond to our customers while focusing on internal efficiencies.	➡	Proactively improve service using customer feedback to become not only the supplier of choice, but the customer's recommended choice.

Figure 3. Cypress's "Vision of the Future" outlines what each organization at Cypress needed to do to align with the programmable solutions Mission Statement. (The redacted figures are proprietary.) We have made a lot of progress to date. Our technology development and manufacturing transformations are nearing completion. We are still working on our design transformation, which requires new design methods and tools. This year, we added a sixth vision statement to the list—to dedicate Cypress to better customer service.

ments. While we maintained our Fab 4 facility in Bloomington, Minn., to develop and manufacture new technologies, we sold our Fab 1 R&D plant in San Jose, Calif., in 2007 and closed our Fab 2 facility in Round Rock, Texas, in 2008. These major changes greatly enhanced our cash flow and profitability.

As part of our programmable products Mission Statement, first presented to investors in our 2006 Annual Report, we created a "Vision of the Future" (*Figure 3*) to describe how all Cypress organizations needed to transform themselves.

We have made significant progress toward achieving our Vision of the Future. For example, Cypress now serves nearly 7,000 PSoC customers. Our technology development and manufacturing transformations are nearly complete, but we are still in mid-transformation in our chip design group, which needed new design tools and a change in our design talent mix. We have closed eight chip design centers and doubled the number of software engineers in the company, both to cut R&D costs and to serve our new mission. Finally, we have added a sixth vision statement, on customer service, to "proactively improve service using customer feedback to become not only the supplier of choice, but the customer's recommended choice." Simply put, Cypress's OEM-standard level of service was adequate for our past, but not for our future. I've been personally involved in our "Ease of Doing Business" task force for over a year. The purpose of the task force is to change every aspect of our interaction with our customers—on the website, in our terms and conditions of commerce, in applications support, on-time delivery, quality, etc.—to become our customers' vendor of choice. Driving customer service improvement is one of the company's three top priorities for 2010.

REVENUE AND PRETAX PROFIT

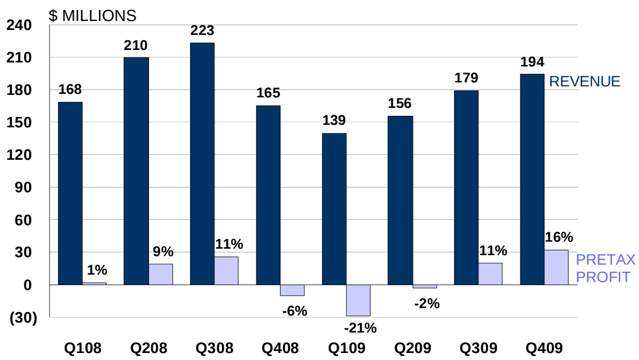


Figure 4. Cypress's revenue collapsed during the "Great Recession" to only $139 million in Q1'09, but recovered quickly due to a rapid ramp in PSoC sales for touchscreen cell phones, as well as Cypress's ascendance to the No. 1 position in the SRAM market. With the help of vigorous cost controls, Cypress achieved 16.3% pretax profit in Q4'09.

FINANCIALS

Our 2009 revenue was $668 million, down 12.8% from the $766 million reported in 2008, due primarily to the recession. Nonetheless, we reported $0.10 in EPS in 2009, down from $0.20 in 2008, but still a profit in a recession year. Cypress rebounded very rapidly from the recession as shown in *Figure 4*.

Our revenue collapsed to $139 million in the first quarter of 2009, but we redoubled our cost-cutting efforts and grew revenue rapidly throughout the year, primarily due to a surge in sales of our PSoC-based TrueTouch™ products into the booming touchscreen cell phone market. Internally, our cost-cutting effort was known as "World Class Cost," an effort that left no stone unturned—from the cost of airline tickets, through liquid nitrogen and other facilities costs, on down to that of bottled water. The number of vice presidents in the corporation was reduced from 80 to 55 in a structured delayering effort. The World Class Cost effort has helped to drive down Cypress's operating expenses an average of 4.3% per year over the last four years—even as we maintained our 2009 R&D investments at 21.9% of sales—as shown in *Figure 5*.

OPERATING EXPENSES

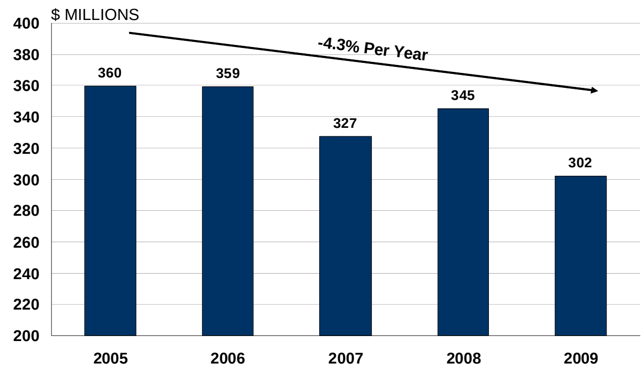


Figure 5. Cypress's operating expenses have dropped 4.3% per year over the last four years due to an internal cost-cutting effort called "World Class Cost" that tracks and reduces almost every cost in the company from liquid nitrogen to the authorized number of vice presidents.

Our recent technology, manufacturing and marketing initiatives have rewarded our shareholders. Our stock closed at $10.56 per share on December 31, 2009, twice the $5.22 first-day closing share price of "New" Cypress shares on September 30, 2008, the day after the SunPower spinout. Our $10.56 year-end share price was also 3.9 times higher than the $2.72 share price recorded at the bottom of the recession in November 2008. As indicated on the graph of Cypress's lifetime share price in *Figure 6*, the two driving forces in the appreciation of Cypress's share price are first the success of SunPower in the 2004-2008 timeframe and—more importantly and enduringly—the success of PSoC both before and after the SunPower spinout.

CYPRESS LIFETIME SHARE PRICE†
MAY 29, 1986 IPO ($0.71) TO DECEMBER 31, 2009 CLOSE ($10.56)

† Adjusted for splits in 1995 and 2008.

Source: Bloomberg

Figure 6. Cypress went public on May 29, 1986 at a share price of $0.71, adjusted for splits. The share price closed at $10.56 on December 31, 2009—near its all-time high and well above the peak dot.com boom price of $9.18. The lifetime CAGR of Cypress's share price is 12.1% per year over the 23 years graphed. On its first trading day after the SunPower spinout, September 30, 2008, "New" Cypress closed at $5.22, then dropped as low as $2.72 during the recession before ending 2009 at $10.56.

PSoC

The cover of last year's Annual Report featured a graphic showing Cypress's dramatic progress in the 8-bit microcontroller (MCU) market from 2003 through 2008. Although 2009 PSoC unit volume was roughly flat at about 160 million units year-on-year, PSoC revenue increased due to the higher prices of the more complex PSoC devices sold. Meanwhile, in 2009, Cypress was the only one of the Top 10 worldwide 8-bit MCU suppliers to grow revenue in the category, allowing it to move up in the ranking from No. 12 to No. 8, as shown in *Figure 7*.

Our future growth will depend not only on the continued growth of the original PSoC 1 family, but on added design wins from our newly introduced PSoC 3 and PSoC 5 families, which are much higher in performance, and hence higher ASPs, than our PSoC 1 family, as described in *Figure 8*.

Our second-generation PSoC 3 and PSoC 5 products are 7.5 and 25 times higher in computational performance than PSoC 1, respectively. Their analog circuitry is 256 times more accurate, while operating 10 times to 30 times faster than PSoC 1. They also have 10 times more programmable logic gates and draw three times to eight times less power than PSoC 1. In short, PSoC 3 and PSoC 5 are exactly the next-generation products that many of our PSoC 1 customers have been asking for. PSoC 3 achieved its first revenue in 2009 and will produce its first $1 million quarter in 2010. PSoC 5 was sampled in 2009 and will garner its first revenue in 2010. As shown in the graphic on the inside front cover, PSoC 3 and PSoC 5 will serve a market many times larger than the PSoC 1 market alone. The PSoC 1 served market is $1.6 billion, to which PSoC 3 adds $5.5 billion and PSoC 5 adds another $5.6 billion, for a total PSoC served market of $12.7 billion.

CYPRESS PSoC TAKES SHARE IN 8-BIT MCU MARKET

Rank	2003-2004	2005-2006	2007-2008	2009
1	Freescale	Microchip	Microchip	Microchip
2	Renesas	Freescale	Freescale	NEC
3	Microchip	Renesas	NEC	ST Micro
4	NEC	NEC	Renesas	Freescale
5	ST Micro	ST Micro	ST Micro	Atmel
6	Atmel	Atmel	Atmel	Renesas
7	Toshiba	Toshiba	NXP	NXP
8	Philips	NXP	Toshiba	**Cypress (#8)**
9	Fujitsu	Sony	Fujitsu	Sony
10	Panasonic	Fujitsu	Sony	Fujitsu
11	Samsung	Panasonic	Panasonic	Panasonic
12	Sanyo	Samsung	**Cypress (#12)**	Toshiba
13	Sony	Philips	Samsung	Samsung
14	Infineon	Holtek	Silicon Labs	Datang
15	Sunplus	Micronas	Sanyo	Silicon Labs
16	Micronas	Sanyo	Infineon	Holtek
17	Zilog	Infineon	Micronas	Infineon
18	Novatek	**Cypress (#18)**	Zilog	Elan
19	Holtek	Zilog	Winbond	Winbond
20	National Semi	Winbond	Holtek	Denso
21	Intel	National Semi	Elan	EM Micro
22	Winbond	Silicon Labs	Novatek	Zilog
23	TI	Novatek	Denso	Seiko Epson
24	EM Micro	Denso	National Semi	Rohm
25	Elan	Sunplus	EM Micro	Sonix
26	Maxim	Elan	Sonix	Micronas
27	Rohm	EM Micro	Maxim	Maxim
28	Silicon Labs	Intel	Intel	National Semi
29	**Cypress (#29)**	Maxim	Sunplus	Sunplus
30	Magnachip	Rohm	Rohm	Hangzhou Silan

Source: Gartner Dataquest Semiconductor Industry Worldwide Annual Market Share Database, March 2010

Figure 7. Cypress's original PSoC products (now called PSoC 1) took worldwide market share in the 8-bit MCU market in 2009, moving from the No. 12 to the No. 8 position based on revenue.

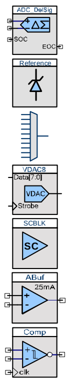
PSoC 3 AND PSoC 5: THE SECOND GENERATION

	PSoC 1	PSoC 3	PSoC 5
CENTRAL PROCESSING UNIT (CPU)			
TYPE	PROPRIETARY	INTEL 8051*	ARM CORTEX M3*
BITS	8	8	32
CLOCK FREQUENCY (MHz)	24	67	80
MIPS**	4	30	100
FLASH MEMORY SIZE (KBYTES)	32	64	256
ANALOG TO DIGITAL CONVERSION			
8 BITS@ KILOSAMPLES PER SECOND***	31	384	1,000
12 BITS@ KILOSAMPLES PER SECOND	0.5	192	1,000
20 BITS@ KILOSAMPLES PER SECOND	--	0.18	0.18
PROGRAMMABLE LOGIC (GATES)	2,000	20,000	20,000
POWER (MILLIWATTS @ 24 MHz)	48	6	14

* An enhanced version of Intel's classic microprocessor, and a new 32-bit processor from ARM.
** Millions of instructions per second (computational performance).
*** Thousands of samples per second.

Figure 8. The new PSoC 5 family was sampled in 2009. The PSoC 3 family achieved its first revenue in 2009. The blue text in the table above shows important areas of dramatic improvement for the new families. PSoC 3 has 7.5 times the computational power of PSoC 1, while PSoC 5 features an advanced 32-bit processor that is 25 times more powerful. Both the PSoC 3 Central Processing Unit or CPU (Intel 8051-based) and the PSoC 5 CPU (ARM-based) have rich, publicly available software "ecosystems" that do not burden Cypress engineering, as did PSoC 1, which has a Cypress-proprietary processor. The new PSoC 3 and PSoC 5 families also dramatically increase the $1.6 billion PSoC 1 served market by $5.5 billion and $5.6 billion, respectively, to $12.7 billion ($15.5 billion in 2012).

PSoC ANALOG VALUE



	EXTENDED PRICE
1 DELTA SIGMA ADC ~ AD7949	$2.72
1 PRECISION REFERENCE 0.1% ~ LTC1790B	$1.00
12 ANALOG MUX ~ CD4051	$0.96
4 DAC ~ DAC084	$1.40
4 TRANS-IMPEDANCE AMPS ~ ADI OP179	$1.40
4 OP AMPS ~ LMV712	$1.12
4 COMPARATORS ~ LM338	$0.32
30 COMPONENTS — TOTAL ANALOG VALUE	$8.92

Figure 9. In one of its literally millions of potential configurations, a PSoC 3 can integrate all 30 of the analog chips listed in this figure next to the icons that represent them as “components” in the PSoC Creator™ design software. Also listed are the comparable part numbers from analog vendors and the values of those competing, discrete products. The analog components in this case are worth $8.92, more than the typical selling price of PSoC 3.

Over the last year of dealing directly with customers on PSoC 3 and PSoC 5, it has become apparent to us that the real competition for these new PSoC products is less microcontroller suppliers (all of whom can brag about their CPUs) than analog companies that sell discrete integrated circuits that can be replaced by PSoC's programmable analog. *Figure 9* lists the analog components available on just one of the literally millions of configurations of a PSoC 3 chip, which can create and integrate 30 different analog functions with a value of $8.92. Although the savings of $8.92 is significant, the biggest advantage of PSoC 3 may be that of integration itself—enabling our customers to buy a single PSoC chip, rather than having to buy 30 discrete analog products from three or four different vendors—and make them all work together on a PC board under time-to-market pressure.

PSoC is a potent competitive weapon that enables us to quickly expand our markets. For example, mechanical buttons and sliders have rapidly disappeared from new consumer products, having been replaced by capacitively sensed interfaces. When that new opportunity first arose in 2005, we simply programmed our PSoCs to perform a new function we now call CapSense® and entered the market quickly, without having to design any new chips. Furthermore, PSoC not only “read” the new capacitive buttons, it also computed the results called for by various button sequences—and did something about it—such as turning on lights, activating solenoids and running small motors. It was easy for Cypress to be one of the first to market with a capacitive sensing solution, because we only had to program a PSoC chip we were already manufacturing. In my keynote address at the Embedded Systems Conference in Boston in September 2009, I dubbed this forward-looking aspect of PSoC as: *Solving problems you did not know existed for customers you have never met*—the ultimate in time to market.

Today, as the recognized market leader, Cypress offers several newer generations of CapSense chips, which can run hundreds of buttons, even in environments where water drops have to be electronically detected and eliminated as false finger touches.

The touchscreen cell phone revolution took off very quickly in 2008. We were able to capitalize on that opportunity without designing a new chip. As pictured on the front cover, we programmed “Radon,” a PSoC introduced in 2004, to perform the touch-sensing function on a cell phone, again solving a problem we had not anticipated for a customer to whom we had not previously sold PSoCs. The touchscreen application is very similar to the capacitive button application in that PSoC is used to sense minute changes in the capacitance of an array of electrodes—only in a touchscreen application, the electrodes are made from a transparent conductor (Indium Tin Oxide, or ITO) overlaid on the cell phone display. There are added problems with ITO touchscreens. For example, the material is not a good conductor like the copper used on capacitive buttons, making electronic sensing more difficult—but that is the forte of PSoC: solving problems with software, rather than with new chips.

In last year's Annual Report, I introduced our third-generation touchscreen chip, code-named “Indium.” It is now designed into multiple cell phones and is expected to produce over $30 million in revenue in 2010. Another of Cypress’s top three objectives for 2010 is to design our fourth-generation touchscreen product, creatively code-named “TSG4,” to handle bigger screens faster using less power than Indium. We expect to become No. 1 in the touchscreen IC market in 2010, thanks to the head start that PSoC has given us.

Our success in the cell phone touchscreen market is now being replicated in other high-volume consumer markets, including digital still cameras, printers, GPS systems and tablet computers. We also have multiple touchscreen design wins in the automotive market that will generate revenue in 2011-2012.

Finally, I wrote last year about "PowerPSoC®," a modified PSoC 1 chip that contains large power transistors capable of controlling 36 watts of power to serve the rapidly growing Light Emitting Diode (LED) lighting market. (Thirty-six watts of LEDs produce the same amount of light as 360 watts of incandescent bulbs.) We expect PowerPSoC to generate its first $1 million quarter early in 2010 and grow in the future along with the world's conversion to energy-efficient LED lighting.

OTHER NEW PRODUCTS

Figure 10 shows that 81% of Cypress's revenue now comes from proprietary products that have no pin-compatible second source, eliminating bidding wars on the majority of our business.

PROPRIETARY REVENUE AS % OF TOTAL

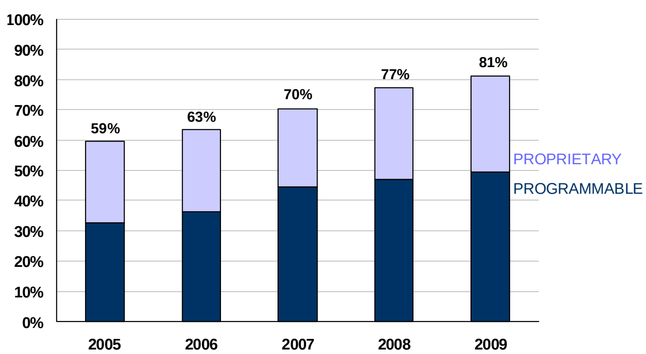


Figure 10. About 81% of Cypress's revenue now comes from proprietary products; i.e., from products that have no pin-compatible second source. Further, 50% of our revenue comes from proprietary products that are also programmable.

The consistent increase in our proprietary revenue has led to a consistent rise in our Average Selling Price (ASP), as shown in *Figure 11*.

We are particularly pleased that we were able to increase our ASP slightly in 2009, an otherwise terrible year for price erosion due to the recession. In particular, PSoC makes it easier for us to hold our

RISING ASPs

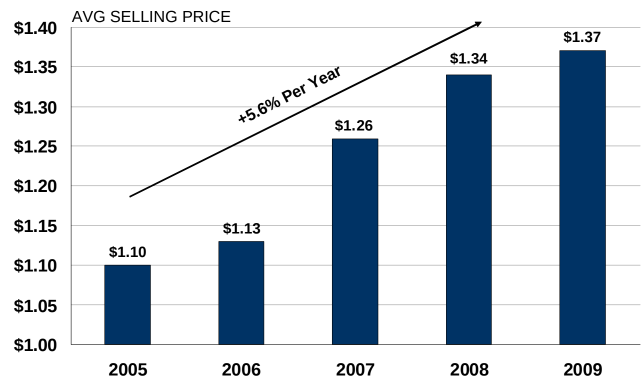


Figure 11. The higher proprietary and programmable content of Cypress's products has contributed to a 5.6% annual rise in our ASP over the last four years.

prices, not only because it is a proprietary product, but also because we can quantitatively demonstrate to our customers the value of all of the products that a PSoC replaces on their boards.

Finally, I want to offer my congratulations to our SRAM group for taking over the No. 1 position in the world in the SRAM market in 2009. I began working on SRAMs in 1975 at American Microsystems Inc. Later, I managed the SRAM product line at Advanced Micro Devices in 1980. Cypress's first product in 1983 was a 1-Kbit SRAM that is 144,000 times smaller than the densest 144-Mbit SRAM Cypress ships today. Our Memory and Imaging Division VP, Dana Nazarian, a 22-year Cypress veteran who started at Cypress as a wafer fab engineer, uses the iconic photograph of Muhammad Ali standing over a defeated Sonny Liston in their famous 1965 bout to illustrate the victory of the "Last Man Standing" to symbolize the long-term effort of the Cypress SRAM group to persevere through some very difficult times to eventually achieve the No. 1 position. The overall SRAM market is not growing rapidly, but our SRAM group does provide the cash flow to develop other new products at Cypress. When Cypress entered the SRAM business in 1983, we trailed more than 20 competitors in revenue, including Intel, the inventor of the SRAM; AMD; National Semiconductor and Motorola (now Freescale). Furthermore, all of the big Japanese electronics companies—including Hitachi, NEC, Fujitsu, Toshiba and Mitsubishi—were in the SRAM

THE LAST MAN STANDING

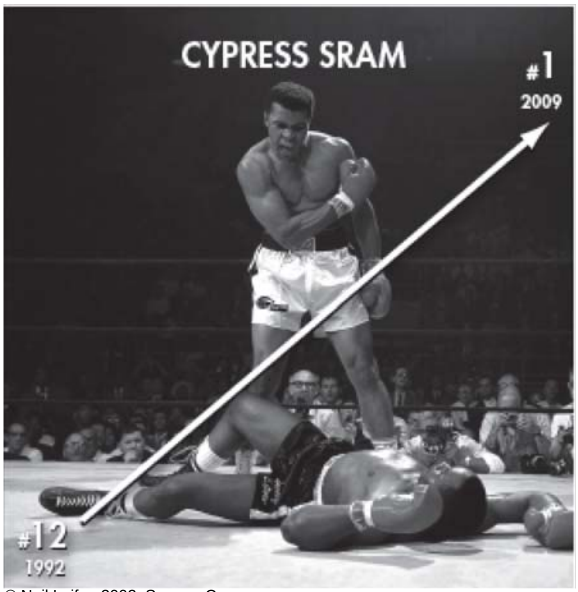


Figure 12. "Last Man Standing." Cypress took over the No. 1 position in the SRAM market in 2009, after 26 years.

business, along with Samsung. It has been a marathon, and we are proud of our victory.

EMERGING TECHNOLOGY DIVISION

Cypress currently has four internal startup efforts, each hoping to achieve the success of SunPower or Cypress MicroSystems. These companies are known collectively as the Emerging Technology Division (ETD). ETD products are described on the inside back cover of this report.

Cypress Envirosystems and its products have been described in previous Annual Reports. The company uses Cypress's advanced products, such as our PSoC chips and our WirelessUSB™ radios, to bring electronic intelligence to legacy markets. Its most promising product is the Wireless Pneumatic Thermostat, a device that uses the Internet and a radio link to turn legacy pneumatic thermostats, which cannot be controlled remotely, into smart thermostats that can be adjusted for changing demands, such as power shortages on hot afternoons. Cypress Envirosystems had a setback in 2009 due to a product quality problem. It is back on track with new quality and manufacturing teams, and expects to achieve its first $1 million quarter in 2010.

AgigA Tech is our newest startup, based in San Diego, Calif. It makes the highest-density, high-speed, nonvolatile memory systems available. Its products range in density from 4 *giga*bits to 16 *giga*bits, 1,000 times to 4,000 times larger than the single-chip nonvolatile SRAMs produced by our MID division. Nonvolatile memories are used to save critical data when the power goes down, for example, in a disk drive system holding bank account data. The unique feature of AgigA Tech's nonvolatile memories is that they are big and very fast, and thus able to be used as normal workhorse memories, while still surviving power outages. We also expect AgigA Tech to achieve its first $1 million quarter this year.

Our Optical Navigation System (ONS) business unit has several key design wins with a special PSoC to which we have attached a precise laser-based optical position sensor. We have been working on this product for five years and found a strong market for it in the fingertip sensors used on cell phones and other portable equipment. We also expect our ONS business unit to achieve its first $1 million quarter in 2010.

Our China Business Unit (CBU) is located in Shanghai. Its mission is to define and design chips in China for local customers. CBU's first big success will be the "Lithium 2" chip that will become the marketshare leader for motor control in the high-volume Chinese eBike market, replacing the generic PSoC that currently holds that position. We expect CBU to post its first $2 million quarter in 2010.

Our startups all report their revenue publicly as part of ETD. While ETD investments in R&D have been a sink of funds in the past, we expect ETD revenue to grow from $7.5 million in 2009 to over $20 million in 2010. By 2011, ETD will add another significant component to Cypress's overall revenue growth.

SHAREHOLDER VALUE

Cypress employees holding stock options did not receive the SunPower stock dividend valued at $16.42 per share and had their intrinsic option value preserved by receiving 4.12 post-spin Cypress stock options for every pre-spin Cypress option they held. This adjustment created new Cypress options that would have been highly dilutive, had we not mounted a concerted effort to hold our share count down.

Figure 13 shows that our 2009 weighted-average, fully diluted share count was just over 180 million shares, in line with the prior four years, while our basic share count even declined year-on-year. To achieve that result, Cypress bought back 12.6 million shares in 2008 before the SunPower spinout and 24.5 million shares just after the spinout at a total cost of $376 million. In 2009, we repurchased another 5.8 million shares for $46 million. We are prepared to repurchase more shares, but are prohibited from doing so until September 30, 2010, the second anniversary of the SunPower spinout. Nonetheless, the 42.9 million shares we did buy back give us significant EPS leverage for the future.

CYPRESS SHARE COUNT

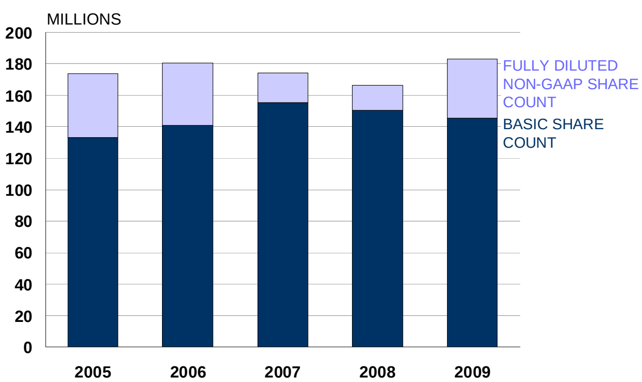


Figure 13. Despite the additional options and shares created by the SunPower spinout, Cypress maintained a relatively flat share count by buying back 42.9 million shares. In 2008, we repurchased 12.6 million shares before the spinout and 24.5 million shares after the spinout at a total cost of $376 million. In 2009, we repurchased another 5.8 million shares for $46 million.

The market rewarded our performance in 2009. *Figure 14* shows that Cypress stock appreciated 136% in 2009 vs. year-end 2008. This performance exceeded that of the two major semiconductor indices (the SOX and the S&P Semi), as well as the broad Dow Jones Industrial Average (DJIA) and Nasdaq indices. This is not a fluke; it is the fifth consecutive year that Cypress stock has outperformed all four indices.

Figure 15 shows appreciation curves for Cypress stock vs. the four indices for 15 scenarios with share

CYPRESS 2009 SHARE PRICE % GAIN

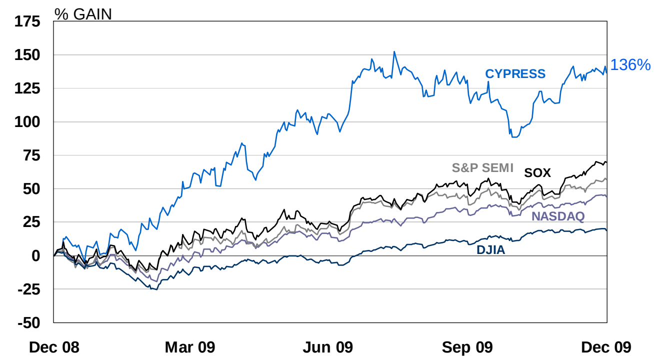


Figure 14. Cypress's share price appreciated 136% in 2009, relative to its year-end price in 2008. This performance beat the two semiconductor indices (the SOX and the S&P Semi), as well as the broad DJIA and Nasdaq market indices.

purchases from 2004 through 2008 and sales from 2005 through 2009. The diagonal line highlights the graphs that compare Cypress shares to the indices over one-year periods from 2005 through 2009. For example, the middle graph shows that Cypress appreciated 114% in 2007, relative to 2006, while the indices were flat in performance. In every graph, the blue Cypress appreciation curve is above the curves of the four indices; i.e., Cypress outperformed all of the indices.

The horizontal line in *Figure 15* highlights graphs depicting multiyear investments ending in 2009 and beginning in any year from 2004 through 2008. The percentage figure in the upper-right corner of each graph is the CAGR for the investment period depicted. For example, the 42% CAGR in the upper-right graph means that for someone purchasing Cypress stock at year-end 2004 and selling at year-end 2009, the CAGR of that investment was 42% per year.

In 14 of the 15 investment scenarios presented, the CAGR for Cypress stock is 19% or more. In only one case, for stock bought in 2007 and sold in 2008, is the CAGR negative (-22%), but even in that case, the losses are less than those of the indices.

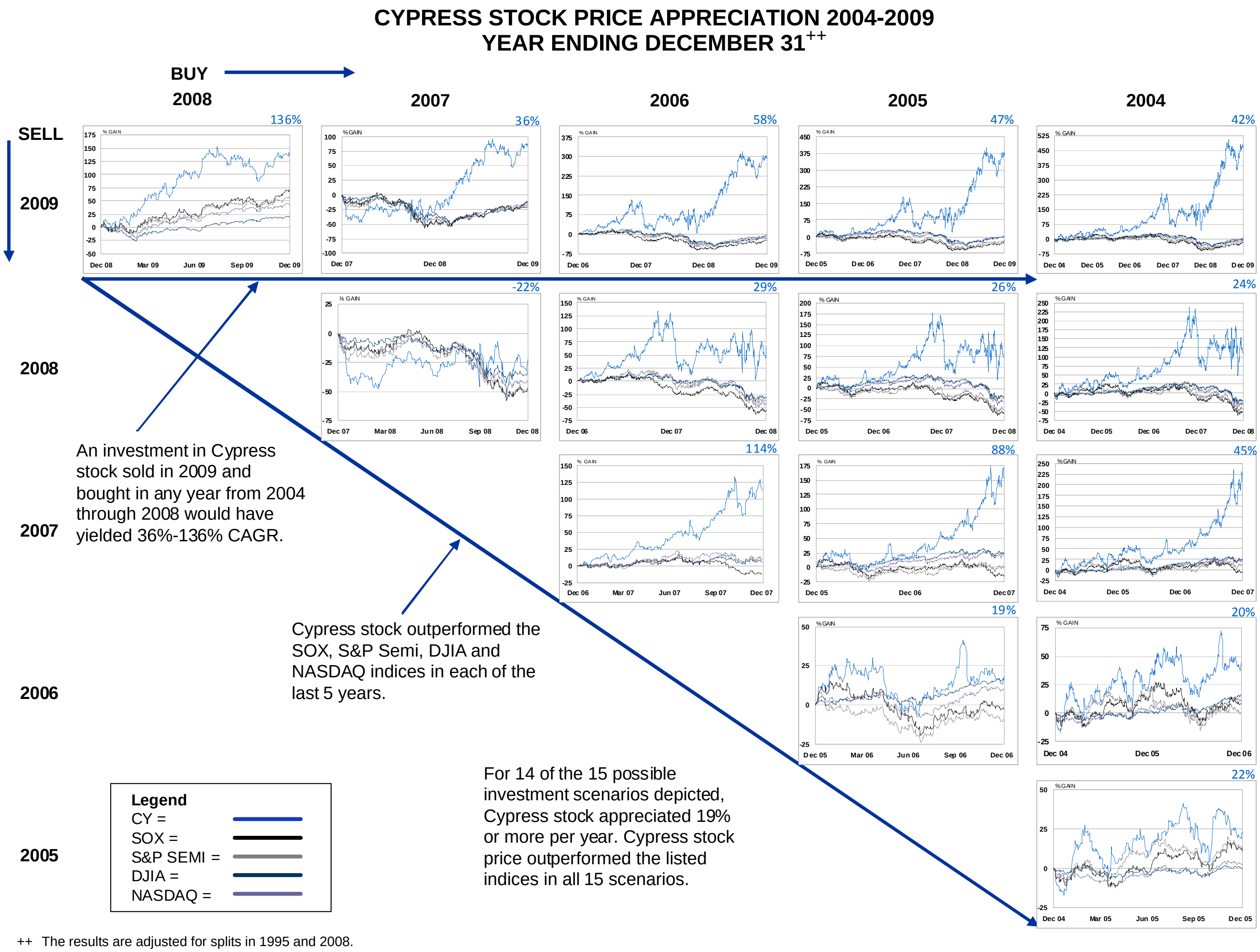


Figure 15. The upper left graph is a repeat of *Figure 14*, which displays the 136% appreciation of Cypress stock bought at year-end 2008 and sold at year-end 2009. The next graph highlighted along the diagonal arrow shows that Cypress stock bought in 2007 and sold in 2008 lost 22% in value. It is the only graph of the 15 that shows a Cypress loss for the year. Even then, the -22% performance preserved capital during a recession by outperforming the SOX, S&P Semi, DJIA and Nasdaq indices.

The graphs highlighted by the horizontal line depict the results of multiyear investments. For example, the upper-right-hand graph shows that a five-year investment in Cypress with shares purchased in 2004 and sold in 2009 yielded a 42% CAGR (468% total appreciation) over that period. The rest of the graphs highlighted by the horizontal line show that for investments sold in 2009, the CAGRs were 47% for stock bought in 2005, 58% for stock bought in 2006 and 36% for stock bought in 2007.

CONCLUSION

Cypress made a lot of progress in 2009 toward achieving its new programmable products Mission Statement. We now have moved up to the No. 8 position in the worldwide 8-bit MCU market for 2009, from No. 12 in 2007-2008 and No. 29 in 2003-2004.

Our second-generation PSoC products fared well during 2009. PSoC 3, with 7.5 times the computing power of our flagship PSoC 1, has received multiple design wins and achieved first revenue. PSoC 5, which features a 32-bit ARM-based processor with 25 times the performance of PSoC 1, sampled in 2009 and will produce first revenue in late 2010. Together PSoC 3 and PSoC 5 increase the market served by all PSoCs from $1.6 billion to $12.7 billion.

PowerPSoC, a modified version of PSoC 1 capable of driving 36 watts of LED lighting, will see its first $1 million quarter by mid-year.

We also expect each of our four Emerging Technology Division business units to produce significant revenue this year. Our Optical Navigation System, AgigA Tech's large nonvolatile memories, the China Business Unit's first products and Cypress Envirosystems's Wireless Pneumatic Thermostat are each expected to generate their first $1 million or $2 million quarters in 2010. In aggregate, we expect ETD's revenue to grow from $7.5 million in 2009 to over $20 million in 2010.

We have transformed Cypress into a capital-efficient, fab-lite company. We have aggressively bought back 42.9 million Cypress shares to hold down our share count, despite the potentially very dilutive impact of the SunPower spinout, in which we distributed $2.6 billion ($16.42 per share) to our shareholders. Our SRAM group has taken the No. 1 position in the world and now produces consistent profitability and cash flow.

PSoC revenue grew nicely during the recession year of 2009 due to another unanticipated market trend—touchscreen cell phones—which will get bigger in 2010. Because of the configurable and programmable nature of PSoC, we were able to enter that market quickly in 2008, giving us the momentum to become the largest supplier of touchscreen IC chips by the end of 2010.

We are often surprised by the nature and intensity of new-product demands from the market. Our next big new product will likely come from solving a problem we were unaware of for a customer we do not know. That's great. PSoC was designed to shine in chaos.

That's why, barring a double-dip recession, we expect a strong 2010 with significant revenue growth and solid profitability.

T.J. Rodgers
President and CEO

This is the 24th Annual Report I've written for our public shareholders. I thank the Cypress employees who helped to create the report, often after-hours and over the weekends. We tell our own story without the use of ad agencies or PR firms. *TJR*

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

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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.

Consolidated Statements of Operations (Annual)

(In millions, except per-share data)

	Year Ended		
	Jan. 3, 2010	Dec. 28, 2008	Dec. 30, 2007
Revenues	$ 668	$ 766	$ 822
Costs and expenses (credits):			
Cost of revenues	397	426	448
Research and development	181	193	174
Selling, general and administrative	220	249	195
Amortization of acquisition-related intangible assets	4	6	8
Impairment of goodwill	-	351	-
Impairment related to synthetic lease	-	-	7
Restructuring charges	15	22	1
Gain on divestitures	-	(10)	(18)
Total costs and expenses, net	817	1,237	815
Operating income (loss)	(149)	(471)	7
Gain on sale of SunPower common stock	-	192	373
Interest and other income (expense), net [1]	5	(32)	(7)
Income (loss) from continuing operations before income taxes	(144)	(311)	373
Income tax provision	(6)	(8)	(6)
Income (loss) from continuing operations	$ (150)	$ (319)	$ 367
Income from discontinued operations attributable to Cypress [2]	-	34	16
Income from discontinued operations-noncontrolling interest, net of taxes [2]	-	34	13
Noncontrolling interest, net of income taxes	(1)	-	-
Net income (loss)	(151)	(251)	396
Less net (income) loss attributable to noncontrolling interest	1	(34)	(13)
Net income (loss) attributable to Cypress	$ (150)	$ (285)	$ 383
Net income (loss) per share - basic:			
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.36
Discontinued operations attributable to Cypress	-	0.23	0.10
Net income (loss) per share - basic:	$ (1.03)	$ (1.89)	$ 2.46
Net income (loss) per share - diluted:			
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.13
Discontinued operations attributable to Cypress	-	0.23	0.10
Net income (loss) per share - diluted:	$ (1.03)	$ (1.89)	$ 2.23
Weighted-average shares outstanding:			
Basic	146	150	156
Diluted	146	150	172

[1] The fiscal years ended December 28, 2008 and December 27, 2007 include the retrospective application of adopting new accounting guidance relating to debt.

[2] Our financial statements have been recast to account for our spin-off of SunPower as discontinued operations in fiscal 2008 and 2007.

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

(In millions)

	Year Ended		
	Jan. 3, 2010	Dec. 28, 2008	Dec. 30, 2007
GAAP gross margin	$ 271	$ 340	$ 374
Stock-based compensation expense	40	27	12
Impairment of assets	-	2	-
Write down of final build inventory	-	2	-
Other acquisition-related expense	1	2	-
License royalty	3	-	-
Non-GAAP gross margin	$ 315	$ 373	$ 386
GAAP research and development expenses	$ 181	$ 193	$ 174
Stock-based compensation expense	(37)	(39)	(16)
Other acquisition-related expense	-	(2)	-
Gain on sale of long-term asset	2	-	-
Changes in value of deferred compensation plan	-	1	-
Non-GAAP research and development expenses	$ 146	$ 153	$ 158
GAAP selling, general and administrative expenses	$ 220	$ 249	$ 195
Stock-based compensation expense	(64)	(55)	(32)
Other acquisition-related expense	-	(2)	(1)
Release of allowance for uncollectible employee loans	-	-	7
Non-GAAP selling, general and administrative expenses	$ 156	$ 192	$ 169
GAAP operating income (loss)	$ (149)	$ (471)	$ 7
Stock-based compensation expense	141	121	60
License royalty	3	-	-
Acquisition-related expense:			
Impairment of goodwill	-	351	-
Amortization of acquisition-related intangibles	3	6	8
Other acquisition-related expense	2	5	1
Gain on sale of long-term asset	(2)	-	-
Write down of final build inventory	-	3	-
Impairment related to synthetic lease	-	-	7
Changes in value of deferred compensation plan	-	(1)	(1)
Release of allowance for uncollectible employee loans	-	-	(7)
Impairment of assets	-	2	-
Gains on divestitures	-	(10)	(18)
Restructuring charges	15	22	2
Non-GAAP operating income	$ 13	$ 28	$ 59
GAAP net income (loss) attributable to Cypress	$ (150)	$ (285)	$ 383
Stock-based compensation expense	141	121	60
License royalty	3	-	-
Acquisition-related expense:			
Impairment of goodwill	-	351	-
Amortization of acquisition-related intangibles	3	6	8
Other acquisition-related expense	2	5	1
Gain on sale of long-term asset	(2)	-	-
Write down of final build inventory	-	3	-
Impairment related to synthetic lease	-	-	7
Changes in value of deferred compensation plan	-	(1)	(1)
Release of allowance for uncollectible employee loans	-	-	(7)
Impairment of assets	-	2	-
Gains on divestitures	-	(10)	(18)
Restructuring charges	15	22	2
Investment-related gains/losses	3	39	37
Gain on sale of Sunpower shares	-	(192)	(373)
Tax effects	3	6	(2)
Income from discontinued operations attributable to Cypress	-	(34)	(16)
Non-GAAP net income attributable to Cypress	$ 18	$ 33	$ 81
GAAP net income (loss) per share attributable to Cypress - diluted	$ (1.03)	$ (1.89)	$ 2.23
Stock-based compensation expense	0.97	0.74	0.36
License royalty	0.02	-	-
Acquisition-related expense:			
Impairment of goodwill	-	2.11	-
Amortization of acquisition-related intangibles	0.03	0.04	0.05
Other acquisition-related expense	-	0.03	0.01
Gain on sale of long-term asset	(0.02)	-	-
Write down of final build inventory	-	0.02	-
Impairment related to synthetic lease	-	-	0.04
Changes in value of deferred compensation plan	-	(0.01)	(0.01)
Release of allowance for uncollectible employee loans	-	-	(0.04)
Impairment of assets	-	0.01	-
Gains on divestitures	-	(0.06)	(0.10)
Restructuring charges	0.10	0.13	0.01
Investment-related gains/losses	0.02	0.23	0.21
Gain on sale of Sunpower shares	-	(1.16)	(2.17)
Tax effects	0.02	0.04	(0.01)
Non-GAAP share count adjustment	(0.01)	0.17	(0.02)
Income from discontinued operations attributable to Cypress	-	(0.20)	(0.09)
Non-GAAP net income per share attributable to Cypress - diluted	$ 0.10	$ 0.20	$ 0.47

Consolidated Statements of Operations (Quarterly)

(In millions, except per-share data)

	Quarter Ended							
	Jan. 3, 2010	Sep. 27, 2009	Jun. 28, 2009	Mar. 29, 2009	Dec. 28, 2008	Sept. 28, 2008	Jun. 29, 2008	Mar. 30, 2008
Revenues	$ 194	$ 179	$ 156	$ 139	$ 165	$ 223	$ 210	$ 168
Costs and expenses (credits):								
Cost of revenues	99	94	99	105	105	124	108	89
Research and development	40	43	48	50	50	54	45	44
Selling, general and administrative	51	55	53	61	51	80	61	57
Amortization of acquisition-related intangible assets	1	1	1	1	1	2	2	2
Impairment of goodwill	-	-	-	-	351	-	-	-
Restructuring charges	1	7	1	6	9	8	2	2
Gain on divestitures	-	-	-	-	-	(10)	-	-
Total costs and expenses, net	192	200	202	223	567	258	218	194
Operating income (loss)	2	(21)	(46)	(84)	(402)	(35)	(8)	(26)
Gain on sale of SunPower common stock	-	-	-	-	-	192	-	-
Interest and other income (expense), net [1]	3	2	1	(1)	(15)	(7)	(7)	(3)
Income (loss) from continuing operations before income taxes	5	(19)	(45)	(85)	(417)	150	(15)	(29)
Income tax benefit (provision)	(2)	(1)	-	(3)	4	(24)	14	(2)
Income (loss) from continuing operations	$ 3	$ (20)	$ (45)	$ (88)	$ (413)	$ 126	$ (1)	$ (31)
Income from discontinued operations and noncontrolling interest, net of income taxes [2]	(1)	-	-	-	2	23	31	12
Net income (loss)	2	(20)	(45)	(88)	(411)	149	30	(19)
Less net income (loss) attributable to noncontrolling interest	(1)	-	-	-	3	12	14	5
Net income (loss) attributable to Cypress	$ 3	$ (20)	$ (45)	$ (88)	$ (414)	$ 137	$ 16	$ (24)
Net income (loss) per share - basic:								
Continuing operations attributable to Cypress	$ 0.02	$ (0.13)	$ (0.32)	$ (0.67)	$ (2.87)	$ 0.84	$ (0.01)	$ (0.19)
Discontinued operations attributable to Cypress	-	-	-	-	(0.01)	0.07	0.12	0.04
Net income (loss) per share - basic:	$ 0.02	$ (0.13)	$ (0.32)	$ (0.67)	$ (2.88)	$ 0.91	$ 0.11	$ (0.15)
Net income (loss) per share - diluted:								
Continuing operations attributable to Cypress	$ 0.02	$ (0.13)	$ (0.32)	$ (0.67)	$ (2.87)	$ 0.79	$ (0.01)	$ (0.19)
Discontinued operations attributable to Cypress	-	-	-	-	(0.01)	0.07	0.11	0.04
Net income (loss) per share - diluted:	$ 0.02	$ (0.13)	$ (0.32)	$ (0.67)	$ (2.88)	$ 0.86	$ 0.10	$ (0.15)
Weighted-average shares outstanding:								
Basic	155	152	141	135	144	152	151	155
Diluted	184	152	141	135	144	160	162	155

[1] The fiscal year ended December 28, 2008 includes the retrospective application of adopting new accounting guidance relating to debt.
[2] Our financial statements have been recast to account for our spin-off of SunPower as discontinued operations in fiscal 2008 and 2007.

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

(In millions)

	Quarter Ended							
	Jan. 3, 2010	Sep. 27, 2009	Jun. 28, 2009	Mar. 29, 2009	Dec. 28, 2008	Sept. 28, 2008	Jun. 29, 2008	Mar. 30, 2008
GAAP gross margin	$ 95	$ 85	$ 57	$ 34	$ 60	$ 99	$ 102	$ 79
Stock-based compensation expense	7	8	11	14	5	14	5	3
Write down of final build inventory	-	-	-	-	2	-	-	-
Impairment of assets	-	-	-	-	-	-	-	2
Other acquisition-related expense	-	-	1	-	2	-	-	-
License royalty	3	-	-	-	-	-	-	-
Non-GAAP gross margin	$ 105	$ 93	$ 69	$ 48	$ 69	$ 113	$ 107	$ 84
GAAP research and development expenses	$ 40	$ 43	$ 48	$ 50	$ 50	$ 54	$ 45	$ 44
Stock-based compensation expense	(6)	(8)	(11)	(12)	(13)	(16)	(5)	(5)
Other acquisition-related expense	-	-	-	-	(1)	-	-	-
Other	2	-	-	-	-	-	-	-
Non-GAAP research and development	$ 36	$ 35	$ 37	$ 38	$ 36	$ 38	$ 40	$ 39
GAAP selling, general and administrative	$ 51	$ 55	$ 53	$ 61	$ 51	$ 80	$ 61	$ 57
Stock-based compensation expense	(11)	(15)	(16)	(22)	(10)	(28)	(9)	(8)
Other acquisition-related expense	-	-	-	-	-	(2)	-	-
Non-GAAP selling, general and administrative	$ 40	$ 40	$ 37	$ 39	$ 41	$ 50	$ 52	$ 49
GAAP operating income (loss)	$ 2	$ (21)	$ (46)	$ (84)	$ (402)	$ (35)	$ (8)	$ (26)
Stock-based compensation expense	24	31	38	48	29	58	19	16
Write down of final build inventory	-	-	-	-	2	-	-	-
Impairment of assets	-	-	-	-	-	-	-	2
License royalty	3	-	-	-	-	-	-	-
Other	1	-	1	1	4	2	3	2
Impairment of goodwill	-	-	-	-	351	-	-	-
Restructuring charges	1	7	1	6	9	8	2	2
Gain on divestitures	-	-	-	-	-	(10)	-	-
Non-GAAP operating income (loss)	$ 31	$ 17	$ (6)	$ (29)	$ (7)	$ 23	$ 16	$ (4)
GAAP net income (loss) attributable to Cypress	$ 3	$ (20)	$ (45)	$ (88)	$ (414)	$ 137	$ 16	$ (24)
Stock-based compensation expense	24	31	38	48	29	58	19	16
Write down of final build inventory	-	-	-	-	2	-	-	-
Impairment of assets	-	-	-	-	-	-	-	2
License royalty	3	-	-	-	-	-	-	-
Investment-related gains/losses	-	3	-	1	9	10	11	8
Impairment of goodwill	-	-	-	-	351	-	-	-
Restructuring charges	1	7	1	6	9	8	2	2
Gain on divestitures	-	-	-	-	-	(10)	-	-
Gain on sale of SunPower common stock	-	-	-	-	-	(192)	-	-
Tax/other expense effects on non-GAAP adjustments	1	(1)	2	3	1	23	(10)	4
Income from discontinued operations attributable to Cypress	-	-	-	-	1	(11)	(17)	(7)
Non-GAAP net income (loss) attributable to Cypress	$ 32	$ 20	$ (4)	$ (30)	$ (12)	$ 23	$ 21	$ 1

Consolidated Balance Sheets

(In millions)

	As of	
	Jan. 3, 2010	Dec. 28, 2008
ASSETS		
Cash, cash equivalents and short-term investments	$ 300	$ 238
Accounts receivable, net	87	92
Inventories	91	115
Property, plant and equipment, net	273	297
Goodwill and other intangible assets	47	50
Other assets [2]	115	137
Total assets	$ 913	$ 929
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 62	$ 43
Deferred income	76	83
Income tax liabilities	46	27
Convertible debt	-	27
Other liabilities	98	111
Total liabilities	282	291
Total Cypress stockholders' equity	632	638
Non-controlling interest	(1)	-
Stockholders' equity [1]	631	638
Total liabilities and stockholders' equity	$ 913	$ 929

[1] Common stock: 650 and 650 shares authorized; 235 and 205 shares issued; 159 and 137 shares outstanding as of January 3, 2010 and December 28, 2008, respectively.

[2] Includes auction rate securities of $33 and $35 classified as long term investments as of January 3, 2010 and December 28, 2008, respectively.

CORPORATE INFORMATION

BOARD OF DIRECTORS	W. Steve Albrecht(1)	Andersen Alumni Professor of Accounting, Brigham Young University
	Eric A. Benhamou(1,2)	Chairman of our Board, Chairman of the Board of 3Com Corp.
	Lloyd Carney(1,2)	CEO, 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 of Cypress
	Evert P. van de Ven(3,4)	Former Executive Vice President and CTO, Novellus Systems
EXECUTIVE VICE PRESIDENTS	Brad W. Buss	Executive Vice President, Finance and Administration and Chief Financial Officer
	Sabbas Daniel	Executive Vice President, Quality
	Paul Keswick	Executive Vice President, New Product Development, Engineering, IT
	Dana Nazarian	Executive Vice President, Memory and Imaging Division
	Cathal Phelan	Executive Vice President and Chief Technical Officer
	Dinesh Ramanathan	Executive Vice President, Data Communications Division
	Christopher Seams	Executive Vice President, Sales and Marketing
	Shahin Sharifzadeh	Executive Vice President, Manufacturing and Operations; President, China Ops
	Thomas Surrette	Executive Vice President, Human Resources
	Norman Taffe	Executive Vice President, Consumer and Computation Division
	Harry Sim	CEO, Cypress Envirosystems (subsidiary)
	Ron Sartore	CEO, AgigA Tech (subsidiary)

LEGAL MATTERS
Questions regarding legal matters should be directed to:
Victoria Tidwell — General Counsel and Vice President, Legal Affairs

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(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

ANNUAL MEETING

The annual meeting of stockholders for Cypress Semiconductor Corporation will be held on Friday, May 14, 2010, 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 NASDAQ Global Select Market 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, 2010, 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.

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, 2010. 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.

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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 January 3, 2010

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	**The NASDAQ Stock Market**

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The market value of voting and non-voting common stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on June 28, 2009 as reported on the New York Stock Exchange, was approximately $1.0 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 24, 2010, 162,008,249 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 January 3, 2010 are incorporated by reference in Items 10 - 14 of Part III of this Annual Report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

Forward-Looking Statements

The discussion in this Annual Report on Form 10-K contains statements that are not historical in nature, but are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, including, but not limited to, statements related to our programmability strategy; the markets we intend to pursue; our increased reliance on third party manufacturing; our strategy regarding non-aligned, underperforming businesses; the number and impact of future personnel terminations and the expenses related thereto; our expectations, including the timing, related to our restructuring activities which includes the closure of our Texas manufacturing facility; the sufficiency of our last time build of certain products previously manufactured in our Texas facility, our expectations regarding our active litigation matters and our intent to defend ourselves in those matters; the assumptions and calculations of our unrecognized tax benefits; our expected tax rate on foreign earnings, the adequacy of our cash and working capital positions; our expected return on our yield-enhancement program, our intended use of our line of credit; the value and liquidity of our investments in auction rate securities, and other debt investments, our expectations regarding our outstanding warranty liability, our plans to repurchase stock, whether or not we expect to pay dividends, the volatility of our stock price, the impact of the credit crisis on consumers and our obligations under the Grace guarantees. We use words such as "plan," "anticipate," "believe," "expect," "future," "intend" and similar expressions to identify forward-looking statements. Such forward-looking statements are made as of the date hereof and are based on our current expectations, beliefs and intentions regarding future events or our financial performance and the information available to management as of the date hereof. Except as required by law, we assume no responsibility to update any such forward-looking statements. Our actual results could differ materially from those expected, discussed or projected in the forward-looking statements contained in this Annual Report on Form 10-K for any number of reasons, including, but not limited to, the state and future of the general economy and its impact on the markets we serve and our investments; the current credit conditions; our ability to expand our customer base, our ability to transform our business with a leading portfolio of programmable products; the number and nature of our competitors; the changing environment and/or cycles of the semiconductor industry; our ability to efficiently manage our manufacturing facilities and achieve our cost goals emanating from our flexible manufacturing strategy; our ability to maintain the tax-free nature of the SunPower spin-off; our success in our pending litigation matters, our ability to manage our investments and interest rate and exchange rate exposure; our ability to achieve liquidity in our investments, our ability to execute on the key strategies identified in the Business Strategies section of this 10-K and/or the materialization of one or more of the risks set forth above or in Item 1A (*Risk Factors*) in this Annual Report on Form 10-K.

Spin-Off of SunPower Corporation ("SunPower")

Following completion of the spin-off of SunPower on September 29, 2008, we no longer consolidated SunPower's financial results beginning in the fourth quarter of fiscal 2008 or addresses risk factors associated with SunPower's business, operations, financial condition and results of operations. For a detailed discussion of the risks affecting SunPower, investors should refer to SunPower's Annual Report on Form 10-K for the fiscal year ended January 3, 2010 and December 28, 2008. The contents of such Form 10-K are expressly not incorporated by reference herein.

PART I

ITEM 1. BUSINESS

General

In 2006, Cypress Semiconductor Corporation ("Cypress") set out on a mission to transform from a traditional, broad-line semiconductor company into a leading supplier of proprietary and programmable solutions in systems everywhere. We are well on our way to achieving this goal. In 2009, Cypress captured a record 81% of revenues from programmable and proprietary products. Approximately 7,000 customers are using Cypress's flagship PSoC® programmable system-on-chip platform, and the diverse end products they make range from cell phones and MP3 players to washing machines, personal computers ("PCs") and communications switches.

Cypress's high-performance, mixed-signal, programmable solutions provide customers with integration, rapid time-to-market and system value. In addition to PSoC, our offerings include capacitive sensing and touchscreen solutions, universal serial bus ("USB") controllers, and general-purpose programmable clocks. Cypress also provides wired and wireless connectivity solutions, including, respectively, West Bridge® controllers, which enhance sideloading performance in multimedia handsets, and the CyFi™ low-power radio frequency ("RF") solution, offering reliability, simplicity and power-efficiency. Cypress also offers a wide portfolio of static random access memories ("SRAMs"), nonvolatile memories and image sensor products. Cypress serves numerous markets, including consumer, computation, handsets, data communications, automotive, medical, industrial and white goods.

Cypress was 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." On November 12, 2009, we voluntarily moved our stock listing back to the NASDAQ Global Select Market, maintaining the "CY" ticker symbol.

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 2009 ended on January 3, 2010, fiscal 2008 ended on December 28, 2008 and fiscal 2007 ended on December 30, 2007. Our fiscal 2009 contained 53 weeks and fiscal 2008 and fiscal 2007 contained 52 weeks.

Business Segments

As of the end of fiscal 2009, our organization included the following business segments:

Business Segments	Description
Consumer and Computation Division	A product division focusing on PSoC, USB and timing solutions.
Data Communications Division	A product division focusing on data communication devices for wireless handset and professional / personal video systems.
Memory and Imaging Division	A product division focusing on static random access memories, nonvolatile memories and image sensor products.
Emerging Technologies and Other	Includes Cypress Envirosystems and AgigA Tech, Inc., both majority-owned subsidiaries of Cypress, the Optical Navigation Systems ("ONS") business unit, China business unit, foundry-related services and certain corporate expenses.

For additional information on our segments, see Note 20 of Notes to Consolidated Financial Statements under Item 8.

Spin-Off of SunPower Corporation ("SunPower")

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

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

See Note 3 of Notes to Consolidated Financial Statements under Item 8 for a detailed discussion of the Spin-Off. Unless otherwise indicated, this Annual Report on Form 10-K includes discussion of our continuing operations.

Business Strategies

Cypress has made substantial progress in its goal to become a leading programmable solutions company. In addition to building a comprehensive programmable product portfolio based on our PSoC platform, we continue to actively manage expenses and maintain a strong balance sheet. We continue to shift certain business operations to lower-cost centers, including India and China. In addition we are utilizing foundry partners for more of our manufacturing.

In 2009, Cypress introduced two new architectures for its PSoC platform, PSoC 3 and PSoC 5, that extend Cypress's reach into many new and fast-growing markets and increased its total addressable market ("TAM") by 10x from $1.5 billion to $15 billion. Combining the PSoC family of devices with an intuitive new integrated software development environment called PSoC Creator™, Cypress is positioned to claim new business in the microcontroller, programmable analog and programmable logic markets.

We also continued to focus our sales, marketing, and product development on our "touch" business, which includes touchscreens and button-replacement technologies. As a result, we realized significant revenue growth for our PSoC-based TrueTouch™ touchscreen controllers and CapSense® capacitive-touch-sensing products, particularly in the handset market.

In fiscal 2010, Cypress will continue to pursue the following key strategies:

- *Drive programmability.* We believe our proprietary programmable technology and programmable product leadership, led by our flagship PSoC family of devices, represents an important competitive advantage for us, and has enabled us to maintain strong average selling prices ("ASPs") across our product lines. Driven by current and anticipated demand, we 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 proliferation.* The most important step of our programmability initiative is to drive PSoC adoption in a variety of applications. PSoC devices can be used in applications ranging from MP3 players and handsets to running shoes, appliances, laptops and fitness equipment. The product's easy-to-use programming software and development kits can facilitate rapid adoption across many different platforms. With the introduction of new PSoC architectures, we expect to see continued market share gains in this area, starting in 2010.

- *Focus on large and growing markets*. We will continue to pursue business opportunities in markets, including handheld and human interface/consumer devices, portable medical devices, industrial sensing and control, mobile accessories, and system management.

- *Collaborate with customers to build system-level solutions.* We work 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 optimize our customers' design efforts, helping them to achieve product differentiation and speed time-to-market. Our engineering expertise is focused on developing whole product solutions, including silicon, software and reference designs.

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

- *Identify and exit legacy or non-strategic, underperforming businesses.* A focused business will allow us to better achieve our current objectives. Over the past three years, we have divested certain business units that were inconsistent with our future business initiatives and long-term plans. Exiting these businesses has allowed us to focus our current resources and efforts on our core programmable and proprietary business model. As part of our growth strategy, we will continue to review our business units to ensure alignment with our short and long-term goals.

- *Pursue complementary strategic relationships.* Complementary acquisitions can expand our markets and strengthen our competitive position. As part of our growth strategy, we continue to selectively assess opportunities to develop strategic relationships, including acquisitions, investments and joint development projects with key partners and other businesses.

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

Product / Service Overview

<u>Consumer and Computation Division:</u>

The Consumer and Computation Division designs and develops solutions for many of the world's leading end-product manufacturers. Its programmable product offerings are the linchpin of our programmable solutions strategy. This division's products include PSoC devices, CapSense and TrueTouch touch-sensing/touchscreen products and the CyFi low-power RF radio, the industry's broadest selection of USB controllers and WirelessUSB™ products, and general-purpose programmable clocks. 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 and peripheral 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 1, PSoC 3 and PSoC 5	Consumer, handsets, industrial, medical, communications	Digital still and video cameras, appliances, handheld devices, notebook computers, LCD monitors, medical devices, mice, keyboards, industrial interfaces, toys, mobile accessories and e-Bikes.
CapSense	Consumer, industrial, computation, white goods, communication, automotive	Notebook computers and PCs, appliances, handheld devices, automotive control pads/media centers, digital cameras, toys, consumer products and many other applications.
TrueTouch	Consumer, computation, handsets, communication, gaming	Mobile handsets, portable media players, video games, GPS systems, keyboards and other applications.
USB controllers	PC peripherals, consumer electronics	Mice, keyboards, handheld devices, gamepads and joysticks, VoIP phones, headsets, presenter tool, dongles, point of sale devices and bar code scanners.
WirelessUSB	PC peripherals	Mice, keyboards, wireless headsets, consumer electronics, gamepads, remote controllers, toys and presenter tools.
CyFi low-power RF	Industrial monitoring and control, building automation, medical, sports and leisure, freight/shipping	Sensor networks, monitoring systems, remote controls, medical equipment, fitness equipment and asset management systems.
Programmable clocks	Consumer, computation	Set-top boxes, copiers, printers, HDTV, industrial automation, printers, single-board computers, IP phones, storage devices, servers and routers.
RoboClock™ buffers	Communications	Base stations, high-end telecom equipment (switches, routers), servers and storage.

PSoC® Programmable System-on-Chip products. Our PSoC products are highly integrated, high-performance mixed-signal devices with an on-board microcontroller, programmable digital and analog blocks, SRAM and flash memory. They provide a low-cost, single-chip solution for a variety of consumer, industrial, medical, and system management applications. A single PSoC device can integrate as many as 100 peripheral functions saving customers design time, board space, power consumption, and system costs. Because of its programmability, PSoC allows customers to make modifications at any point during the design cycle, providing unmatched flexibility. Cypress's flagship PSoC 1 device delivers performance, programmability and flexibility with a cost-optimized 8-bit M8C CPU subsystem.

In fiscal 2009, we launched the next generation of our PSoC family, PSoC 3 and 5. PSoC 3 uses an 8-bit, Intel® 8051-based microcontroller with 7.5 times more computing power than PSoC 1. The 32-bit, ARM®-Cortex™-based PSoC 5 has 25 times more computing power than PSoC 1. The analog-to-digital converters on PSoC 3 and PSoC 5 are 256 times more accurate and 10- to 30-times faster than PSoC 1, and there are 10 times more programmable logic gates available. PSoC Creator™ is a unique design tool that allows engineers to use intuitive schematic-based capture and dozens of certified, firmware-defined, pre-packaged peripherals. Cypress shipped its 600 millionth PSoC device in 2009.

CapSense. Our PSoC-based CapSense capacitive touch-sensing solutions replace mechanical switches and controls with simple, touch-sensitive controls by detecting the presence or absence of a conductive object (such as a finger) and measuring changes in capacitance. This technology lends itself equally well to buttons, sliders, touchpads, touchscreens and proximity sensors, taking industrial design possibilities to a much higher level. The CapSense family includes CapSense, CapSense Express™ and CapSense Plus™—each supporting different ranges of general purpose inputs/outputs, buttons and slider devices. In 2009, Cypress introduced SmartSense™ technology, an automatic tuning solution for its CapSense devices that dynamically detects and adjusts a system's capacitive-sensing parameters, eliminating the need for manual tuning. Cypress has replaced more than 3 billion buttons with CapSense technology and is the worldwide capacitive sensing market share leader in handsets.

TrueTouch Touchscreen Solutions. TrueTouch is a single-chip touchscreen solution that can interpret the inputs of more than 10 fingers from all areas of the screen simultaneously. This enables designers to create new usage models for products such as mobile handsets, portable media players ("PMPs"), global positioning systems ("GPS") and other products. The TrueTouch family also includes devices that perform traditional touchscreen functions including interpreting single touches, and gestures such as tap, double-tap, pan, pinch, scroll, and rotate. In early 2010, Cypress demonstrated a tablet-sized capacitive touchscreen technology with 10-finger tracking, ideal for Windows® 7-based laptops, netbooks and tablet PCs and introduced 1mm stylus support for TrueTouch capacitive touchscreens. This combined portfolio of touchscreen solutions is the industry's broadest.

USB Controllers. Cypress shipped its one-billionth USB controller in 2009. 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.

CyFi™ Low-Power RF Solutions. Our CyFi low-power RF solution is the highly reliable, easy-to-use, 2.4-GHz answer to a wide range of wireless embedded control challenges, enabling designers to create wireless systems without compromising reliability, complexity and low power consumption. The solution combines a PSoC device, CyFi transceiver and CyFi network protocol stack. It is ideal for sensor networks, security monitoring systems, remote controls, medical equipment, fitness equipment, asset management systems and other applications.

Programmable Clocks. Programmable timing solutions such as our 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. Our programmable clocks are ideal for devices requiring multiple frequencies including Ethernet, PCI, USB, HDTV, and audio applications. In 2009, Cypress introduced the FleXO™ family of high-performance clock generators that can be instantly programmed in the factory or field to any frequency up to 650 MHz, accelerating time to market and improving manufacturing quality.

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 design 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 PowerPSoC® which includes our EZ-Color™ LED lighting solutions. Our communication products are primarily used in the networking and telecommunications market. This division also makes a line of legacy 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 and 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 and military.
PowerPSoC® controllers	Industrial, lighting	LEDs, motors and other power applications.
EZ-Color LED controllers	Architecture, entertainment	Flashlights, architectural lighting, general signage and entertainment lighting.

West Bridge® 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. The most recent addition to the West Bridge family is Astoria which features Multi-Level Cell (MLC) NAND Flash support that enables designers to use lowest-cost, highest-density flash storage. In 2009, Cypress also introduced Turbo-MTP™, a faster media transfer protocol module for West Bridge controllers. Users can transfer a movie from a PC to their handheld device in less than 45 seconds— four times faster than the next-best alternative.

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.

PowerPSoC. Cypress's PowerPSoC family of embedded power controllers is the industry's first fully integrated single-chip solution for both controlling and driving high-power LEDs and other power applications such as small motors. The PowerPSoC family integrates four constant-current regulators and four 32V MOSFETs with Cypress's PSoC® programmable system-on-chip, which includes a microcontroller, programmable analog and digital blocks and memory. This uniquely high level of integration provides customers with a single-chip solution for high-quality LED-based lighting products and extends into other embedded applications such as white goods and industrial control.

EZ-Color Controllers. Our EZ-Color family of devices offers the ideal control solution for high brightness 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.

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. In 2009, Cypress became the world's No.1 supplier of SRAMs. 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, peripheral and industrial electronics.
Synchronous SRAMs	Base station, networking	Wireline networking, wireless base stations, high bandwidth applications and 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 and gaming.
Image sensors	Consumer, automotive, medical, industrial	High volume cell phone, digital camera, medical equipment, digital photography and medical imaging.

Asynchronous SRAMs. We manufacture a wide selection of fast asynchronous and micropower SRAMs with densities ranging from 16 Kbits to 64 Mbits. These memories are available in many combinations of bus widths, packages and temperature ranges including automotive. They are ideal for use in point-of-sale terminals, gaming machines, network switches and routers, IP phones, IC testers, DSLAM Cards and various automotive applications.

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 up to 250 MHz, including those in the networking, instrumentation, video and simulation businesses. Double Data Rate (DDR) SRAMs target network applications and servers that operate at data rates up to 550 MHz. Quad Data Rate (QDR™) products are targeted toward next-generation networking applications, particularly switches and routers that operate at data rates beyond 550 MHz and offer twice the bus bandwidth of DDR SRAMs. In 2009, Cypress introduced the industry's first 65-nm QDR and DDR SRAMs. The 144-Mbit and 72-Mbit devices, developed with foundry partner UMC, feature the industry's fastest clock speeds and operate at half the power of their 90-nm predecessors. They are ideal for networking, medical imaging and military signal processing.

nvSRAMs. nvSRAMs are products that operate similar to standard Asynchronous SRAM and reliably store data into an internal nonvolatile array during unanticipated power downs. The competitive advantage of an nvSRAM is infinite endurance and much faster read/write speed than a Serial Flash or EEPROM. Additionally, theses high-speed nonvolatile SRAM devices can store data for more than 20 years without battery backup. These memories are ideal for redundant array of independent disks ("RAID") storage arrays, metering applications, multifunction printers and other industrial applications, such as PLCs. In 2009, Cypress introduced a 1-Mbit serial nonvolatile SRAM family and new 4-Mbit and 8-Mbit parallel nvSRAMs with an integrated real-time clock, providing failsafe battery-free data backup in mission-critical applications.

Image Sensors. Cypress develops and markets innovative and high-performance standard products and custom design CMOS imager ASICs. Our CMOS active pixel sensors are based on innovative design approaches realized in standard CMOS processing technologies. Our custom design image sensors are produced according to the agreed specification and planning. With more than 15 years of experience in the field of CMOS active pixel sensors, we have proven solutions for multi-megapixel digital photography, large area sensors (w/o stitching), ultra-high-speed, imaging for machine vision, linear and 2D barcode imaging, medical XRAY imaging, single-chip camera integration, and radiation-hardened CMOS image sensors for space and nuclear use.

Emerging Technologies:

The Emerging Technologies consists of businesses outside our core semiconductor business. It includes majority owned subsidiaries Cypress Envirosystems and AgigA Tech Inc., foundry services and other operations.

Cypress Envirosystems, Inc. Formed in fiscal 2007, Cypress Envirosystems (formerly Cypress Systems Corporation) 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 Envirosystems 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. Products include a wireless pneumatic thermostat that enables remote temperature sensing and control, a wireless gauge reader that clips onto the face of existing gauges to capture and transmit data, a wireless steam trap monitor that detects leaks and failures, and a wireless transducer reader that provides energy-use characterization and baseline data for audits. It has formed a strategic partnership with Honeywell to sell a custom version of its Wireless Gauge Reader under the Honeywell brand label.

AgigA Tech, Inc. AgigA Tech a majority owned subsidiary of Cypress, produces very-high-density, high-speed, non-volatile memories. Its flagship product, AGIGARAM™ is the industry's first, battery-free, high-speed high-density, nonvolatile dynamic random access memory (DRAM) system. In the event of a power outage, AGIGARAM provides fail-safe battery-free data backup capabilities for storage, networking, gaming, automotive, industrial and embedded systems. Its CAPRI family of battery-free nonvolatile memory products has an industry-leading two gigabytes of density.

Optical Navigation Sensors.("ONS") Our OvationONS™ laser-based optical navigation sensor is targeted at high-end and midrange 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 handset, tablet gaming, desktop and mobile mouse, high-precision trackball, and industrial applications. Based on Cypress's PSoC programmable system-on-chip platform, the OvationONS™ II "mouse-on-a-chip" solution is the first product combining a precision laser navigation sensor with an optical signal processor and microcontroller on a single chip.

China Business Unit. Centered in Shanghai, Cypress's China Business Unit designs and produces semiconductor solutions for the China marketplace. Early product successes include PSoC-based solutions for electric bicycles, consumer electronics, and white goods. The China Business Unit is also licensing Cypress technology to foundries throughout Asia.

Acquisitions and Divestitures

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. At the same time, we continuously evaluate our businesses to make sure that they are well-aligned with our programmable and proprietary products strategy. Businesses that do not align with our strategy are considered for divestment. We did not make any acquisitions or divestitures in fiscal 2009.

Manufacturing

During fiscal 2009, we manufactured approximately 65% of our semiconductor products at our wafer manufacturing facility in Bloomington, Minnesota. External wafer foundries manufactured the balance of our products.

We have a strategic foundry partnership with Grace Semiconductor Manufacturing Corporation ("Grace"), located in Shanghai, China. Under the terms of the agreement, we transferred certain proprietary process technologies to Grace and provided additional production capacity to augment output from our manufacturing facilities. During fiscal 2006 and 2007, we completed the transfer of our 0.35-micron SONOS, 0.13-micron SRAM and LOGIC processes and began purchasing products from Grace that were manufactured using these processes.

In conjunction with the agreement, we have entered into a series of guarantees with a financing company for the benefit of Grace. As of January 3, 2010, we continue to serve as guarantor for approximately $9.1 million in lease payments due by Grace. If Grace fails to pay any of the quarterly rental payments, we will be obligated to pay such outstanding amounts. We expect our obligations under the agreement to be reduced to zero by the end of fiscal 2010.

We conduct assembly and test operations at our highly automated assembly and test facility in the Philippines. This facility accounted for approximately 56% of the total assembly output and 75% of the total test output in fiscal 2009. Various subcontractors in Asia performed the balance of the assembly and test operations.

Our facility in the Philippines performs assembly and test operations manufacturing volume products and packages where our 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 us to respond more rapidly to changes in demand.

Research and Development

Research and development efforts are focused on the development and design of new semiconductor 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 designs and lower our manufacturing costs. During fiscal 2009, 2008 and 2007, research and development expenses totaled $181.2 million, $193.5 million and $174.2 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

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

One global distributor accounted for 14% of our total revenues for fiscal 2009. Two distributors accounted for 13% and 11% of our total revenues for fiscal 2008. Two distributors accounted for 14% and 12% of our total revenues for fiscal 2007. There was no single end customer in fiscal 2009, 2008 or 2007 that accounted for more than 10% of total revenue.

Backlog

Our sales typically rely upon standard purchase orders for delivery of products with relatively short delivery lead times. Customer relationships are generally not subject to long-term contracts. However, we have entered into long-term supply agreements with certain customers. These long-term supply agreements generally do not contain minimum purchase commitments. 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.

Competition

The semiconductor industry is intensely competitive and continually evolving. This intense competition results in a challenging operating environment for most companies in these industries. 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; and
- number and nature of our competitors and general economic conditions.

We face competition from domestic and foreign semiconductor manufacturers, many of which have advanced technological capabilities and have increased their participation in the markets in which we operate. We compete with a large number of companies primarily in the telecommunications, networking, data communications, computation and consumer markets. Companies who compete directly with our semiconductor businesses include, but are not limited to, Altera, Analog Devices, Applied Micro Circuits, Atmel, Integrated Device Technology, Integrated Silicon Solution, Lattice Semiconductor, Linear Technology, Maxim Integrated Products, Inc., Microchip Technology, National Semiconductor, Pericom Semiconductor, PMC-Sierra, Renesas, Samsung, Silicon Laboratories, Standard Microsystems, Synaptics, Texas Instruments and Xilinx.

Environmental Regulations

We use, generate and discharge hazardous chemicals and waste in our research and development and manufacturing activities. United States federal, state and local regulations, in addition to those of other foreign countries in which we operate, impose various environmental rules and obligations, which are becoming increasingly stringent over time, intended to protect the environment and in particular regulate the management and disposal of hazardous substances. We also face increasing complexity in our product design as we adjust to new and future requirements relating to the materials composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union (Restriction on the Use of Hazardous Substances Directive 2002/95/EC, also known as the "RoHS Directive") and similar legislation in China and California. We are committed to the continual improvement of our environmental systems and controls. However, we cannot provide assurance that we have been, or will at all times be, in complete compliance with all environmental laws and regulations. Other laws impose liability on owners and operators of real property for any contamination of the property even if they did not cause or know of the contamination. While to date we have not experienced any material adverse impact on our business from environmental regulations, we cannot provide assurance that environmental regulations will not impose expensive obligations on us in the future, or otherwise result in the incurrence of 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;
- 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; and

For example, we are currently working with the Texas Commission on Environmental Quality in connection with the shutdown activities related to our Texas manufacturing facility, and will take all reasonable steps to ensure the Texas facility closure complies with all applicable federal, state and local environmental laws.

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 2009, we had approximately 1,723 issued patents and approximately 900 additional patent applications on file domestically and internationally. In addition, in fiscal 2010, we are preparing to file up to 70 new patent applications in the United States and 10 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, however, we are committed to vigorously defending and protecting our investment in our intellectual property. Therefore, the strength of our intellectual property program, including the breadth and depth of our portfolio, will be critical to our success in the new markets we intend to pursue.

In connection with our divestiture of unaligned and non-strategic businesses, we performed an analysis of our intellectual property portfolio to ensure we were deriving the full value of our assets. As a result, we are evaluating the sale of certain unaligned patents as well as other monetization models for our portfolio.

Financial Information about Geographic Areas

Financial information about geographic area is incorporated herein by reference to Note 20 of Notes to Consolidated Financial Statements under Item 8.

International revenues have historically accounted for a significant portion of our total revenues. Our manufacturing and certain finance operations in the Philippines, as well as our sales and support offices and design centers in other parts of the world, face risks frequently associated with foreign operations, including, but not limited to:

- 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 January 3, 2010, we had approximately 3,600 employees worldwide, down from approximately 4,400 employees in the third quarter of 2008 as we implemented a broad based restructuring effort and closed our manufacturing facility in Texas. Geographically, approximately 1,300 employees were located in the Philippines, 1,400 employees were located in the United States and 900 employees were located in other countries. Of the total employees, approximately 2,000 employees were associated with manufacturing, 700 employees were associated with research and development, and 900 employees were associated with selling, general and administrative functions.

None of our employees are 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	61	President, Chief Executive Officer and Director
Brad W. Buss	45	Executive Vice President, Finance and Administration and CFO
Sabbas A. Daniel	47	Executive Vice President, Quality
Paul D. Keswick	52	Executive Vice President, New Product Development, Engineering, IT
Dana C. Nazarian	43	Executive Vice President, Memory and Imaging Division
Cathal Phelan	46	Executive Vice President, Chief Technical Officer
Dinesh Ramanathan	40	Executive Vice President, Data Communications Division
Ronald Sartore	60	Chief Executive Officer, AgigA Tech Inc.
Christopher A. Seams	47	Executive Vice President, Sales and Marketing
Shahin Sharifzadeh	45	Executive Vice President of Worldwide Manufacturing and Operations; President, China Operations
Harry Sim	47	Chief Executive Officer, Cypress Envirosystems
Thomas Surrette	47	Executive Vice President, Human Resources
Norman P. Taffe	43	Executive Vice President, Consumer and Computation Division

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 certain internal subsidiaries, Bloom Energy 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 certain internal subsidiaries and CafePress.com, a private company, as well as Tesla Motors.

Sabbas A. Daniel was appointed Executive Vice President of 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 of 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.

Dana C. Nazarian was named Executive Vice President of Memory and Imaging Division in February 2009. Mr. Nazarian started his career with Cypress in 1988. Prior to his current position, Mr. Nazarian held various management positions, which included oversight of significant operations in our Round Rock, Texas facility and Vice President of our Synchronous SRAM business unit.

Cathal Phelan re-joined Cypress in late 2008 as Executive Vice President and Chief Technical Officer, having left Cypress in early 2006. In 2006, Mr. Phelan left to become Chief Executive Officer/President at Ubicom Inc., a venture capital backed company delivering multi-threaded CPUs. Prior to 2006, Mr. Phelan held a number of engineering and management roles at Cypress, predominantly in design and architecture and then as Executive Vice President for the Data Communications Division. Mr. Phelan originally joined Cypress in 1991, has 37 granted U.S. patents and currently serves as a board member of Virage Logic.

Dinesh Ramanathan was named Executive Vice President of 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.

Ron Sartore was appointed Chief Executive Officer of AgigA Tech, Inc. in 2007. AgigA Tech, Inc. was originally a subsidiary of Simtek Corporation, a public company Cypress acquired in 2008. Mr. Sartore has over 30 years of experience in the computer and semiconductor fields. Prior to his current role, Mr. Sartore served as an Executive Vice President and director of Simtek Corporation. Prior to tenure at Simtek, Mr. Sartore served as a Vice President of several business units at Cypress, which he joined as a result of Cypress's 1999 acquisition of Anchor Chips, a company Mr. Sartore founded in 1995. Prior to Anchor Chips, Mr. Sartore held various engineering and management roles, and was a founder of Cheetah International, in 1985.

Christopher A. Seams was named Executive Vice President of Sales and Marketing in 2005. Prior to his current appointment, Mr. Seams was Executive Vice President of 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 is Executive Vice President of Worldwide Manufacturing and Operations, responsible for directing Cypress's process technology R&D, wafer manufacturing, test, assembly and operations worldwide. He is also President of Cypress's China operations, a position he has held since 2008. Prior to his current position, Mr. Sharifzadeh served as Cypress's Vice President of R&D and Wafer Manufacturing. Mr. Sharifzadeh joined Cypress in 1989.

Harry Sim was appointed Chief Executive Officer of Cypress Envirosystems in 2006. Prior to Cypress Envirosystems, Mr. Sim was with Honeywell from 1991 to 2006, where he was most recently the Global Vice-President of Marketing for Honeywell's Industrial Process Control division. During his 15 years with Honeywell, Mr. Sim has held executive positions in general management, strategy, mergers and acquisitions. Prior to Honeywell, Mr. Sim worked at GE, where he was a Payload Director at NASA's Mission Control Center in Houston.

Tom Surrette was named Executive Vice President of Human Resources in September 2008. After working at Philips/Signetics in software, test and product engineering roles, Mr. Surrette joined Cypress in July 1990 and has held a series of engineering, manufacturing and technical management, marketing and product development roles. Mr. Surrette has served as the Business Unit Director for Micropower SRAM and Synchronous SRAM, the Vice President for Non-Volatile Memory and the Sr. Vice President of Worldwide Operations. He served on the board of directors of Simtek Corporation.

Norman P. Taffe was named Executive Vice President of 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 and currently serves as a board member of the Second Harvest Food Bank.

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

Current unfavorable economic and market conditions, domestically and internationally, may adversely affect our business, financial condition, results of operations and cash flows.

We have significant customer sales both in the U.S. and internationally. We are also reliant upon U.S. and international suppliers, manufacturing partners and distributors. We are therefore susceptible to adverse U.S. and international economic and market conditions, including the challenging economic conditions that have prevailed and continue to prevail in the U.S. and worldwide. The recent turmoil in the financial markets has resulted in dramatically higher borrowing costs which have made it more difficult (in some cases, prohibitively so) for many companies to obtain credit and fund their working capital obligations. If any of our manufacturing partners, customers, distributors or suppliers experiences serious financial difficulties or ceases operations, our business will be adversely affected. In addition, the adverse impact of the credit crisis on consumers, including higher unemployment rates, is expected to adversely impact consumer spending, which will adversely impact demand for consumer products such as certain end products in which our chips are embedded. In addition, prices of certain commodities, including oil, metals, grains and other food products, are volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations and periodic delays in delivery. High or volatile commodity prices increase the cost of doing business and adversely affect consumers' discretionary spending. As a result of the difficulty that businesses (including our customers) may have in obtaining credit, the increasing and/or volatile costs of commodities and the decreased consumer spending that is the likely result of the credit market crisis, unemployment and commodities' price volatility, continued global economic and market turmoil are likely to have an adverse impact on our business, financial condition, results of operations and cash flows.

The trading price of our common stock has been and will likely continue to be volatile due to various factors, some of which are beyond our control, and each of which could adversely affect our stockholders' value.

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

- quarterly variations in our results of operations or those of our competitors;
- announcements by us or our competitors of acquisitions, new products, significant contracts, design wins, commercial relationships or capital commitments;
- the perceptions of general market conditions in the semiconductor industry 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 or our customers or competitors;
- announcements about our earnings or the earnings of our competitors that are not in line with analyst expectations;
- the volume of short sales, hedging and other derivative transactions on shares of our common stock;
- economic conditions and growth expectations in the markets we serve; and
- general economic and credit conditions.

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

We 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 and
- consumer electronics including mobile handsets, automotive electronics and industrial controls.

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, customer and distributor 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 wrongly 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 or our manufacturing partners are unable to ramp our inventory or manufacturing capacity in a timely manner or at all, we risk losing our customers' business, which could have a negative impact on our financial performance and reputation.

In connection with our exit from our Texas facility, we completed a final build of a substantial volume of inventory for certain products previously manufactured at this facility totaling approximately $16.5 million net of sales through fiscal 2009. This inventory now represents our sole source of supply for certain products and is intended to meet forecasted demand for these products for periods ranging from 6 months to 15 years. To the extent that our forecasts of demand for any of these products prove to be inaccurate, we could be unable to meet customer demand and/or write-off significant quantities of obsolete inventory, either of which could adversely affect our business, financial condition and results of operations. For example, in the fourth quarter of 2009 based upon current economic conditions, we re-evaluated the demand forecast related to these long term builds and determined that an additional excess and obsolete write-down was required. As of January 3, 2010, the total excess and obsolete write-down recorded for this inventory was approximately $4.8 million.

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 and marketing new products, software platforms and manufacturing technologies and bringing them to market on a timely basis;
- the quality and price of our products;
- the diversity of our product lines;
- the cost effectiveness of our design, development, manufacturing, support and marketing efforts, especially as compared to our competitors;
- our customer service and customer satisfaction;
- our ability to successfully execute our flexible manufacturing initiative;
- the pace at which customers incorporate our products into their systems, as is sometimes evidenced by design wins;
- 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 working capital.

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

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, for example PSoC3 and 5 and TrueTouch® are an important strategic focus 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, be introduced on time to meet customer schedules 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 materialize as anticipated, our business, financial condition and results of operations could be materially harmed.

The complex nature of our manufacturing activities, our broad product portfolio, and our increasing reliance on third party manufacturers makes us highly susceptible to manufacturing problems and these problems can have a substantial negative impact on us if they occur.

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.

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

Although a majority of our products were fabricated in our manufacturing facilities located in 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 2008, we substantially completed the exit of our manufacturing facility in Texas and transferred certain 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 or has financial issues 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. Worldwide sales through our distributors accounted for 61.2% of our net sales during 2009. We rely on many distributors to assist us in creating customer demand, providing technical support and other value-added services to our customers, filling customer orders and stocking our products. We face ongoing business risks due to our reliance on our channel partners to create and maintain customer relationships where we have a limited or no direct relationship. Should our relationships with our channel partners or their effectiveness decline, we face the risk of declining demand which could affect our results of operations. Our contracts with our distributor may be terminated by either party upon notice. In addition, our distributors are located all over the world and are of various sizes and financial conditions. Any disruptions to our distributors' operations such as lower sales, lower earnings, debt downgrades, the inability to access capital markets and higher interest rates could have an adverse impact on our business.

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

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

The programmability of our products, including 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 programmable portfolio of products. Further, software products occasionally contain errors or defects, especially when they are first introduced or when new versions are released. Our semiconductor products also may contain defects which affect their performance. 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;
- material 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, our business, results of operations and financial condition could be harmed.

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

From time to time we have shared our views in press releases or SEC filings, on public conference calls and in other contexts about current business conditions and our expectations as to potential future results. Correctly identifying the key factors affecting business conditions and predicting future events is inherently an uncertain process especially in these very uncertain economic times. 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 and could be materially 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. 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 requires us to enter into technology transfer agreements with external partners, providing third party access to our intellectual property and resulting in additional risk. In some cases, these technology transfer and/or license agreements are with foreign companies and subject our intellectual property to 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 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.

If credit market conditions do not continue to improve or if they worsen, it could have a material adverse impact on our investment portfolio.

Recent U.S. sub-prime mortgage defaults and other financial, economic and credit issues have had a significant impact across various sectors of the financial markets, causing global credit and liquidity issues. If the global credit market does not continue to improve or if it deteriorates, 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 $32.7 million of auction rate securities which are investments with contractual maturities generally between 20 and 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations with interest rates resetting every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the United States Federal Department of Education.

Since the fourth quarter of 2008 and as of January 3, 2010, 95% of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and approximately 5% of the student loan auction rate securities have been downgraded from AAA or Aaa to Baa3. The downgrade event was due to the higher rates the issuer is paying out versus the lending rates, which is preventing the issuer from building excess spread as required under the prospectus. If the financial market continues to deteriorate, future downgrades could potentially impact the rating of our auction rate securities.

As of January 3, 2010, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. 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. Given these circumstances and the lack of liquidity, we have classified all of our auction rate securities totaling approximately $32.7 million as long-term investments as of January 3, 2010.

During fiscal 2009, we performed analyses to assess the fair value of the auction rate securities and determined that a decline in value had occurred. As a result of our adoption of this new guidance in the second quarter of 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

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

We are currently a party to various legal proceedings, claims, disputes and litigation. For example, we are defendants in purported consumer class action lawsuits alleging various claims under the Sherman Antitrust Act, state antitrust laws and unfair competition laws in the static random access memories ("SRAM") markets. Our financial results could be materially and adversely impacted by unfavorable outcomes to any of these or other pending or future litigation. There can be no assurances as to the outcome of any litigation. Although we believe we have meritorious defenses to each of these matters and we intend to vigorously defend ourselves, such litigation and other claims are subject to inherent uncertainties and our 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.

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, test operations and certain finance operations located in the Philippines, as well as our international sales offices and design centers, face risks frequently associated with foreign operations including but not limited to:

- currency exchange fluctuations;
- the devaluation of local currencies;
- political instability;
- labor issues;
- the impact of natural disasters on local infrastructures;
- 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. From time to time we have effected restructurings which eliminate a number of positions. Even if such key personnel are not directly affected by the restructuring effort, such terminations can have a negative impact on morale and our ability to attract and hire new qualified personnel in the future. 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.

If the spin-off of SunPower does not qualify as a tax-free transaction, tax could be imposed on both our shareholders and us.

We received a private letter ruling from the U.S. Internal Revenue Service ("IRS"), that the spin-off of SunPower was eligible for tax-free treatment under Internal Revenue Code Section 355. In addition, we obtained an opinion of counsel on certain aspects of the spin-off assumed in the ruling. Both the IRS ruling and the opinion rely on certain representations, assumptions and undertakings, including those relating to the past and future conduct of SunPower's and our business. The IRS could determine that the distribution should be treated as a taxable transaction if it determines that any of the representations, assumptions or undertakings that were included in the request for the private letter ruling are false or have been violated, or if it disagrees with the conclusions in the opinion on the matters not covered by the IRS private letter ruling. If the distribution fails to qualify for tax-free treatment, it will be treated as a material taxable distribution to our stockholders in an amount equal to the fair market value of SunPower's equity securities (i.e., SunPower's common stock issued to our stockholders) received by them. In addition, we would be required to recognize a material gain in an amount up to the fair market value of the SunPower equity securities that we distributed on the distribution date.

Furthermore, subsequent events, some of which are not in our control, could cause us to recognize gain on the distribution. For example, acquisitions of our equity securities or SunPower's equity securities that are deemed by the IRS to be part of a plan or a series of related transactions that include the distribution could cause us to recognize gain on the distribution. Although certain provisions of our tax sharing agreement with SunPower are intended to reduce the likelihood that SunPower will knowingly take actions harmful to the ruling or indemnify us for certain of its actions, there can be no assurance that such provisions will mitigate or eliminate any possible tax risks or that SunPower would have the resources to satisfy any indemnity obligations. In addition, these restrictions could under certain circumstances, limit our flexibility to undertake financings, acquisitions, stock repurchases or other transactions involving our stock which might otherwise be beneficial to us.

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. For example, certain liabilities could also arise in connection with the shutdown activities related to our Texas manufacturing facility. While we are taking reasonable steps to ensure the Texas facility closure complies with all applicable federal, state and local environmental laws, the shutdown process is complicated, and if issues were to arise, they could delay the sale of certain of the facilities and manufacturing equipment.

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

We face increasing complexity in our product design as we adjust to new and future requirements relating to the material composition of our products, including the restrictions on lead and other hazardous substances that apply to specified electronic products put on the market in the European Union (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 they are 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.

Our headquarters in California, manufacturing facilities in the Philippines and some of our major vendors', subcontractors' and strategic partners' facilities are located near major earthquake faults or are subject to seasonal typhoons or other extreme weather conditions. We have not been able to maintain insurance coverage at reasonable costs to address the risks posed by potential natural disasters. 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, or make alternative arrangements in the event a vendor, subcontractor or partner's facility or equipment was damaged, 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 acquire could adversely affect our financial results.

We have made acquisitions and pursued other strategic relationships in the past and may pursue additional acquisitions in the future. If we 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 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;
- overcoming cultural and operational differences that may arise between two 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, 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.

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

We routinely incur indebtedness to finance our operations and at times we have had significant amounts of outstanding indebtedness and substantial debt service requirements. 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 payment obligations under indebtedness we may under take from time to time. If we are not able to generate sufficient cash flow to service our debt obligations, 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 any indebtedness we owe. As of January 3, 2010, we had no debt outstanding.

If Grace Semiconductor Manufacturing Corporation were to default on the leases we have guaranteed on their behalf, our financial condition could be harmed.

As of January 3, 2010, we were continuing to serve as guarantor for approximately $9.1 million in lease payments due by Grace Semiconductor Manufacturing Corporation, a strategic foundry of Cypress. In conjunction with the master lease agreement, we have entered into a series of guarantees with a financing company for the benefit of Grace. If Grace fails to pay any of the quarterly rental payments, we will be obligated to pay such outstanding amounts within 10 days of a written demand from the financing company. If we fail to pay such amount, interest will accrue at a rate of 9% per annum on any unpaid amounts. To date, we have not been required to make any payments under these guarantees. However, if Grace were to default on the leases, it could have a negative impact on our financial position and results of operations.

We have implemented and will implement future new Oracle-based applications to manage our worldwide financial, accounting and operations reporting, and disruptions in such tools could adversely affect the integrity of our financial data and our business generally.

We have implemented various Oracle-based tools, including but not limited to, a trade management system. We have taken what we believe are appropriate measures and performed testing to ensure the successful and timely implementation. However, implementations of this scope have inherent risks that in the extreme could lead to a disruption in our financial, accounting and operations reporting as well as the inability to obtain access to key financial data, any of which would materially and adversely affect our business.

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

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

We are subject to examination by the U.S. Internal Revenue Service (the "IRS"), and from time to time we are subject to income tax audits or similar proceedings in other jurisdictions in which we do business, and as a result we may incur additional costs and expenses or owe additional taxes, interest and penalties which will negatively impact our operating result.

We are subject to income taxes in the U.S. and certain foreign jurisdictions, and our determination of our tax liability is subject to review by applicable domestic and foreign tax authorities. For example, we are under examination of certain of our fiscal years by the IRS. The results of these audits are subject to significant uncertainty and could result in our having to pay additional amounts to the applicable tax authority. This would result in a decrease of our current estimate of unrecognized tax benefits or increase of actual tax liabilities which could negatively impact our financial position, results of operations and cash flows.

The accumulation of changes in our shares by "5-percent stockholders" could trigger an ownership change for U.S. income tax purposes, in which case our ability to utilize our net operating losses would be limited and therefore impact our future tax benefits.

Cypress is a publicly traded company whose stockholders change on a daily basis (during normal trading hours). These changes are beyond our control. The U.S. Internal Revenue Code (Section 382) restricts a company's ability to benefit from net operating loses if a "Section 382 Ownership Change" occurs. An ownership change for purposes of U.S. tax law Section 382 may result from ownership changes that increase the aggregate ownership of "5-percent stockholders," by more than 50 percentage points over a testing period, generally three years ("Section 382 Ownership Change"). To our knowledge, we have not experienced a Section 382 Ownership Change. We cannot give any assurance that we will not experience a Section 382 Ownership Change in future years.

Our ability to add or replace distributors is limited.

Our distributors are contracted by us to perform two primary, yet distinct, functions that are difficult to replace:

- distributors provide logistics support, such as order entry, credit, forecasting, inventory management, and shipment of product, to end customers. The process of integrating systems to allow for electronic data interchange is complex and can be time consuming.
- distributors create demand for our products at the engineering level. This mandates the training of an extended distributor sales force, as well as hiring and training specialized applications engineers skilled in promoting and servicing products at the engineering level.

In addition, our distributors' expertise in the determination and stocking of acceptable inventory levels may not be easily transferable to a new distributor. Also, end customers may be hesitant to accept the addition or replacement of a distributor.

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 2009:

Location	Square Footage	Primary Use
Owned:		
United States:		
San Jose, California	310,000	Administrative offices, research and development
Bloomington, Minnesota	337,000	Manufacturing, research and development
Round Rock, Texas	100,000	Property held for sale
Lynnwood, Washington	67,000	Administrative offices, research and development
Asia:		
Cavite, Philippines	221,000	Manufacturing, research and development
Leased:		
Asia:		
Bangalore, India	170,000	Research and development
Hyberabad, India	13,000	Research and development
Shanghai, China	29,000	Research and development
Europe:		
Mechelen, Belgium	23,000	Administrative offices, research and development

During fiscal 2008 as part of a restructuring plan, we exited our manufacturing facility in Round Rock, Texas. We expect to complete the sale of the manufacturing equipment and the facility in fiscal 2010. The property was classified as held for sale as of January 3, 2010. See Note 11 of Notes to Consolidated Financial Statements under Item 8 for further discussion.

We have additional leases for sales offices and design centers located in the United States, Asia and Europe. We believe that our current properties are suitable and adequate for our foreseeable needs. We may need to exit facilities as we continue to evaluate our business model and cost structure.

ITEM 3. LEGAL PROCEEDINGS

In October 2006, the Company received a subpoena related to the Antitrust Division of the Department of Justice ("DOJ")'s investigation into the SRAM market. In December 2008, the DOJ closed its two year investigation without any charge or allegation brought against the Company. As a result of the DOJ's investigation, in October 2006, we, along with a majority of the other SRAM manufacturers, were named in numerous consumer class action suits that are now consolidated in the U.S. District Court for the Northern District of California. Despite the fact that the DOJ's investigation was closed without any allegation or charge brought against the Company, the civil cases remain active. The cases variously allege claims under the Sherman Antitrust Act and various state antitrust laws. The lawsuits seek restitution, injunction and damages in an unspecified amount. Direct and indirect purchaser classes have been certified, although the indirect purchaser class decision is currently up for appeal. Trial is tentatively scheduled for January 2011. The Company was also named in purported consumer antitrust class action suits in three provinces of Canada; however, those cases have not been materially active over the last two years. We believe we have meritorious defenses to these allegations asserted in these various cases and we intend to vigorously defend ourselves in each of these matters.

In May 2004, the Company was among four parties to be named in a trade secret misappropriation litigation filed by Silvaco Data Systems in Santa Clara, California Superior Court. On February 10, 2009, summary judgment was granted in our favor in this matter. Silvaco has appealed our victory. As of the date of this filing, the appeal has not been heard by the Court of Appeals. We believe we have meritorious defenses to these allegations and will vigorously defend ourselves in this matter.

On August 21, 2009, X-Point Technologies filed a single patent infringement case against us and 29 other defendants in the U.S. District Court in Delaware. The patent at issue covers X-Point's technology for data transfer between storage devices and network devices without the use of a CPU or memory. X-Point has made no specific demand for relief in this matter. We believe we have meritorious defenses to the allegations set forth in the complaint and will vigorously defend ourselves 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 the our own investigations, we believe the ultimate outcome of our current legal proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of the litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

ITEM 4. [RESERVED]

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

Effective November 12, 2009, our common stock is listed on the NASDAQ Global Select Market under the trading symbol "CY." Prior to November 12, 2009, our common stock was listed on the New York Stock Exchange. The following table sets forth the high and low per share prices for our common stock:

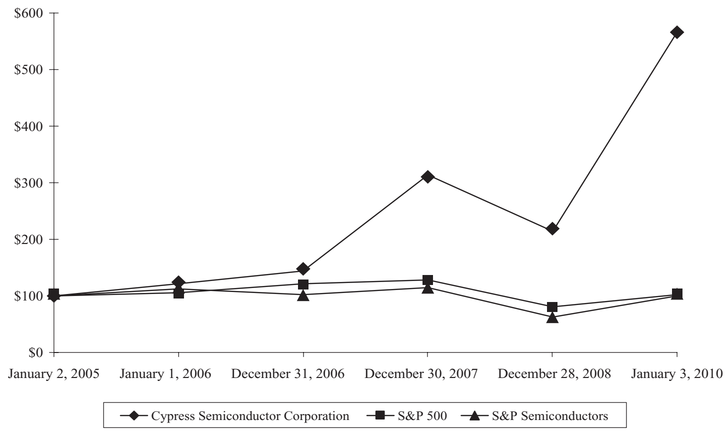
	Low	High
Fiscal 2009:		
Fourth quarter	$ 8.43	$ 10.79
Third quarter	$ 8.61	$ 11.27
Second quarter	$ 6.74	$ 9.33
First quarter	$ 3.87	$ 6.94
Fiscal 2008:		
Fourth quarter	$ 2.72*	$ 19.52
Third quarter	$ 22.50	$ 32.42
Second quarter	$ 23.61	$ 30.57
First quarter	$ 18.79	$ 36.03

* On September 29, 2008, the first day of our fourth quarter of fiscal 2008, we completed the spin-off of SunPower through a tax-free distribution of 42.0 million shares of SunPower Class B common stock to our shareholders. Market prices presented in the tables above are unadjusted and include the value of the SunPower business until September 29, 2008.

As of February 24, 2010, there were approximately 1,622 holders of record of our common stock

We have not paid cash dividends and have no present plans to do so but may in the future.

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:



	January 2, 2005	January 1, 2006	December 31, 2006	December 30, 2007	December 28, 2008	January 3, 2010
Cypress*	$100	$121	$144	$314	$214	$566
S&P 500 Index	$100	$105	$121	$128	$81	$102
S&P Semiconductors Index	$100	$112	$102	$114	$62	$100

* All closing prices underlying this table have been adjusted for stock splits and stock dividends including the SunPower spin.

Securities Authorized for Issuance under Equity Compensation Plans

Equity Compensation Plan Information:

The following table summarizes certain information with respect to our common stock that may be issued under the existing equity compensation plans as of January 3, 2010:

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)
	(In thousands, except per-share amounts)		
Equity compensation plans approved by shareholders	52,500 (1)	$ 4.18 (3)	20,900 (2)
Equity compensation plans not approved by shareholders	17,600	$ 5.74	—
Total	70,100	$ 4.70 (3)	20,900

(1) Includes 17.7 million shares of restricted stock units and restricted stock awards granted.
(2) Includes 14.8 million shares available for future issuance under Cypress's 1994 Amended Stock Option Plan and 6.1 million shares available for future issuance under Cypress's Employee Stock Purchase Plan.
(3) Excludes impact of 17.7 million shares of restricted stock units and restricted stock which have no exercise price.

See Note 9 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:

In fiscal 2007, the Board of Directors (the "Board") authorized a stock repurchase program of up to $300.0 million. In fiscal 2008, the Board approved an additional $300.0 million, bringing the total amount that may have been used for stock purchases to $600.0 million under the stock repurchase program. The stock repurchase program was in addition to the accelerated share repurchase program associated with the 1.00% Notes.

During fiscal 2008, we used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. Approximately 12.6 million shares of this repurchase occurred prior to the Spin-Off at an average stock price of $21.95. The remaining 24.5 million shares were purchased after the Spin-Off at an average price of $4.03.

During fiscal 2009, we used $46.3 million to repurchase approximately 5.8 million shares at an average share price of $8.00. In light of certain tax constraints placed on us in connection with the tax-free spin of SunPower, we had no current intentions of repurchasing additional stock under the existing program. Accordingly, on October 28, 2009, the Audit Committee of the Board voted to rescind the remaining $178.1 million available under the program for additional repurchases.

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

Periods	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Total Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
	(In thousands, except per-share amounts)			
September 28, 2009—October 25, 2009	3,691	$ 9.52	3,691	$ —
October 26, 2009—November 22, 2009	—	$ —	—	$ —
November 23, 2009—January 3, 2010	—	$ —	—	$ —
As of January 3, 2010	3,691	$ —	3,691	$ —

On October 28, 2009 the Audit Committee also approved a yield enhancement strategy intended to improve the yield on our available non-strategic cash. As part of this program, the Audit Committee authorized us to enter into short-term yield enhanced structured agreements correlated to our stock price. In one such structure, we pay a fixed sum of cash upon execution of an agreement in exchange for the financial institution's obligations to pay either a pre-determined amount of cash or shares of our common stock depending on the closing market price of our common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our cash investment returned plus a yield substantially above the yield currently available for short-term cash investments. If the closing market price is at or below the pre-determined price, we will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on our stock price and does not require us to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

The decision to enter into a yield enhanced structured agreement is based upon a comparison of the yields available in the financial markets for similar maturities against the expected yield to be realized per the structured agreement and the related risks associated with this type of arrangement. We believe the risk associated with these types of agreements is no different than alternative investments available to us with equivalent counterparty credit ratings. All counterparties to a yield enhancement program have a credit rating of at least Aa2 or A as rated by major independent rating agencies. For all such agreements that matured in the fourth quarter of fiscal 2009, the yields of the structured agreements were far superior to the yields available in the financial markets primarily due to the volatility of our stock price and the pre-payment aspect of the agreements. The counterparty is willing to pay a premium over the yields available in the financial markets due to the structure of the agreement.

In the fourth quarter of fiscal 2009, we entered into short-term yield enhanced structured agreements totaling $68.0 million with maturities of 30 days or less. We settled these agreements in the fourth quarter of fiscal 2009 and received $69.1 million in cash. In February 2010, we entered into two additional short-term yield enhanced structured agreements with maturities of 30 days or less totaling $98.0 million. Upon settlement of these agreements, we expect to receive $101.4 million in cash. However if upon settlement of the agreements our stock price is at or below the pre-determined price, we will receive 9.0 million shares of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

Our historical consolidated financial statements have been restated to account for SunPower as discontinued operations and the retrospective application of adopting new guidance on accounting for convertible debt instruments that may be settled in cash upon conversion for and new guidance on presentation for noncontrolling interests in consolidated financial statements. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statement of Operations Data. The assets, liabilities and minority interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheet Data.

During the third quarter of 2009, we identified historically immaterial errors related to the value of our raw material inventory balances located in the Philippines. We assessed the materiality of these errors on prior period financial statements and concluded that the errors were not material to any prior annual or interim periods but the cumulative error would be material in the third quarter of fiscal 2009, if the entire correction was recorded in the third quarter. Accordingly, we have revised certain prior year amounts and balances to allow for the correct recording of these transactions. See Note 2 of Notes to Consolidated Financial Statements under Item 8 for a detailed discussion.

In addition, certain prior year balances have been restated to conform to current year presentation, including the retrospective application of adopting new accounting guidance. Under ASC 470, the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion must be accounted for separately in a manner reflective of our nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. The requirements under ASC 810 provide that income (loss) shall be presented for both noncontrolling interests and amounts attributable to Cypress. We have retrospectively applied these changes for all periods presented.

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				
	January 3, 2010	December 28, 2008	December 30, 2007	December 31, 2006 (1)(2)	January 1, 2006 (1)(2)
	(In thousands, except per-share amounts)				
Consolidated Statement of Operations Data:					
Revenues	$ 667,786	$ 765,716	$ 821,597	$ 855,043	$ 807,660
Cost of revenues	$ 397,204	$ 426,284	$ 448,847	$ 451,195	$ 460,319
Operating income (loss)	$ (149,255)	$ (471,433)	$ 6,433	$ 6,285	$ (81,364)
Gain on sale of SunPower common stock	$ —	$ 192,048	$ 373,173	$ —	$ —
Income (loss) from continuing operations	$ (150,424)	$ (319,262)	$ 366,862	$ (7,396)	$ (101,364)
Income (loss) from discontinued operations attributable to Cypress	$ —	$ 34,386	$ 16,057	$ 20,466	$ (15,527)
Income (loss) from discontinued operations—noncontrolling interest, net of taxes	$ —	$ 34,154	$ 12,681	$ 6,373	$ 273
Noncontrolling interest, net of income taxes	$ (946)	$ (311)	$ (19)	$ (4)	$ (2)
Net income (loss)	$ (151,370)	$ (251,033)	$ 395,581	$ 19,439	$ (116,620)
Less net income (loss) attributable to noncontrolling interest	$ 946	$ (33,843)	$ (12,662)	$ (6,369)	$ (271)
Net income (loss) attributable to Cypress	$ (150,424)	$ (284,876)	$ 382,919	$ 13,070	$ (116,891)
Net income (loss) per share—basic:					
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.36	$ (0.05)	$ (0.76)
Discontinued operations attributable to Cypress	—	0.23	0.10	0.14	(0.11)
Net income (loss) per share—basic	$ (1.03)	$ (1.89)	$ 2.46	$ 0.09	$ (0.87)
Net income (loss) per share—diluted:					
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.13	$ (0.05)	$ (0.76)
Discontinued operations attributable to Cypress	—	0.23	0.10	0.14	(0.11)
Net income (loss) per share—diluted	$ (1.03)	$ (1.89)	$ 2.23	$ 0.09	$ (0.87)
Shares used in per-share calculation:					
Basic	145,611	150,447	155,559	140,809	133,188
Diluted	145,611	150,447	171,836	146,223	133,188

	As of				
	January 3, 2010	December 28, 2008	December 30, 2007 (1)(2)	December 31, 2006 (1)(2)	January 1, 2006 (1)(2)
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 299,642	$ 237,792	$ 1,035,738	$ 398,082	$ 186,716
Working capital	$ 279,643	$ 241,370	$ 618,012	$ 674,304	$ 433,847
Total assets	$ 912,508	$ 928,732	$ 3,744,352	$ 2,120,507	$ 1,695,356
Debt	$ —	$ 27,023	$ 549,517	$ 557,072	$ 532,185
Stockholders' equity	$ 630,384	$ 638,427	$ 1,817,274	$ 1,084,998	$ 823,684
Total assets of discontinued operations	$ —	$ —	$ 1,666,339	$ 573,927	$ 322,264
Total liabilities of discontinued operations	$ —	$ —	$ 721,155	$ 85,181	$ 63,613

(1) The year ended December 31, 2007 includes an adjustment that results in a decrease to our inventory balances of $5.5 million and an adjustment to accumulated deficit of the same amount. The year ended December 31, 2006 includes a $1.2 million increase to cost of revenues, a decrease in the amount of $2.5 million to inventories and an increase to accumulated deficit by the same amount. The year ended January 1, 2006 includes a $1.3 million increase to cost of revenues, a decrease in the amount of $1.3 million to inventories and an increase to accumulated deficit by the same amount. Refer to Note 2.

(2) The year ended December 31, 2007 includes retrospective application of the new accounting guidance relating to debt to decrease total assets by $6.4 million and convertible notes by $50.5 million and increase stockholders' equity by $46.0 million. The year ended December 31, 2006 includes additional interest expense (including amortization of debt issuance costs) of $19.7 million, increase to interest income and other income (expense), net of $5.5 million, decrease to basic net income per share of $0.19, decrease to diluted net income per share of $0.17, increase to additional paid in capital of $80.8 million and an increase to accumulated deficit of $80.8 million. The year ended January 1, 2006 includes additional interest expense (including amortization of debt issuance costs) of $23.5 million, decrease to basic and diluted net income per share of $0.18, increase to additional paid in capital of $55.6 million and an increase to accumulated deficit of $55.6 million. Refer to Note 9.

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.

EXECUTIVE SUMMARY

General

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

As of the end of fiscal 2009, our organization included the following business segments:

Business Segments	Description
Consumer and Computation Division	A product division focusing on PSoC, USB and timing solutions.
Data Communications Division	A product division focusing on data communication devices for wireless handset and professional / personal video systems.
Memory and Imaging Division	A product division focusing on static random access memories, nonvolatile memories and image sensor products.
Emerging Technologies and Other	Includes Cypress Envirosystems and AgigA Tech, Inc., both majority-owned subsidiaries of Cypress, the Optical Navigation Systems ("ONS") business unit, China business unit, foundry-related services and certain corporate expenses.

SunPower

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

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

Discontinued Operations Attributable to Cypress:

Our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. The assets, liabilities and minority interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheets.

Unless otherwise indicated, the Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K relate solely to the discussion of our continuing operations.

Our former subsidiary, SunPower, announced in the fourth quarter of fiscal 2009 that certain of its previously issued financial statements could no longer be relied upon. In the course of the preparation of this annual report on Form 10-K, we evaluated the information available to us to date with respect to SunPower's ongoing investigation of its historical financial statements and concluded that such information would not give rise to a material impact on our previously issued financial statements.

Adjustments to Cypress's Stock Plans:

On August 1, 2008, the Board approved certain adjustments to Cypress's 1999 Plan and 1994 Amended Plan (together, the "Plans") and outstanding employee equity awards in anticipation of the Spin-Off (see Note 3). These adjustments were consistent with and similar to the provisions in the Plans providing for automatic adjustment of service provider equity awards and share pools pursuant to a stock split or similar change in capitalization effected without receipt of consideration by us. Specifically, the Board approved amendments to the Plans to preserve the intrinsic value of the awards before and after the Spin-Off since only common stock holders, not equity plan holders were able to receive the SunPower stock distribution.

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

On September 30, 2008, following the Spin-Off, outstanding employee equity awards under the Plans were adjusted by a conversion ratio of 4.12022 (the "Conversion Ratio"). The number of authorized but unissued shares reserved for issuance under the Plans and the ESPP and the numerical provisions under the Plans' annual grant limits and automatic option grant provisions, including automatic grants to Board members, were also impacted by the Conversion Ratio.

The modification of the outstanding employee equity awards and the ESPP on August 1, 2008 resulted in additional non-cash stock-based compensation. The amount was measured based upon the difference between the fair value of the awards immediately before and after the modification. Of the total additional non-cash stock-based compensation $59.4 million and $61.9 million, net of forfeitures was recognized in fiscal 2009 and fiscal 2008, respectively. The remaining $27.8 million will be recognized over the remaining vesting periods on an accelerated basis less forfeitures.

Convertible Debt Maturity

On September 15, 2009, our outstanding 1.00% Notes of approximately $28 million in principal matured and were settled. Holders received cash for the principal amount of the 1.00% Notes and the entire premium. The final conversion price per 1.00% Notes as calculated under the Indenture, was $1,841.76 including principal and premium. Consistent with the terms of the Indenture, on September 15, 2009, we paid approximately $51.6 million for the principal amount of 1.00% Notes, premium and accrued and unpaid interest.

Convertible Note Hedge and Warrants

In connection with the issuance of the 1.00% Notes, we had a convertible note hedge transaction with respect to our common stock with two counterparties, at the equivalent amount of common stock that would be issuable upon conversion of the 1.00% Notes. The objective of this hedge was to reduce the potential dilution upon conversion of the 1.00% Notes in the event that the market value per share of our common stock at the time of exercise is greater than the conversion price of the 1.00% Notes. In addition, we had entered into a warrant transaction in which we sold to the same counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes. On September 15, 2009, the hedge matured and as a result we received $23.6 million from the counterparties. In addition, we repurchased and settled the outstanding warrants, issued in March 2007, through a cash payment of approximately $20.3 million to the counterparties holding the warrants.

Manufacturing Strategy

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

Consistent with this strategy, our Board approved a plan in December 2007 to exit our manufacturing facility in Texas and transfer production to our more cost-competitive facility in Minnesota and outside foundries. We substantially completed our exit plan by the end of fiscal 2008. We continued to hold the property for sale as of January 3, 2010.

RESULTS OF OPERATIONS

Revenues

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Consumer and Computation Division	$ 274,861	$ 315,718	$ 357,671
Data Communications Division	96,568	129,930	117,755
Memory and Imaging Division	288,246	312,410	330,305
Emerging Technologies and Other	8,111	7,658	15,866
Total revenues	$ 667,786	$ 765,716	$ 821,597

Consumer and Computation Division:

Revenues from the Consumer and Computation Division decreased $40.9 million in fiscal 2009, or approximately 13%, compared to fiscal 2008. The decrease was primarily attributable to a decrease of approximately $27.4 million in sales of our USB products mainly due to the economic slowdown impacting demand in PC applications and consumer devices and increased competition in the consumer market. The decrease was also attributable to a decrease of $16.8 million in sales of our general purpose timing solutions resulting from reduced demand from certain large consumer and personal computer customers. The decrease was partly offset by an increase in our PSoC® product families. Despite the challenging economic environment, our PSoC® product families, including our touchscreen family, continued to gain new design wins, expand their customer base and increase market penetration in a variety of end-market applications particularly in mobile handsets.

Revenues from the Consumer and Computation Division decreased $42.0 million in fiscal 2008, or approximately 12%, compared to fiscal 2007. The distributor conversion contributed $12.1 million of the decrease between fiscal periods. After giving effect to the distributor conversion, the decrease was primarily attributable to a decrease of $23.2 million in sales of our USB products and $9.1 million in sales of our general-purpose timing solutions mainly due to softening demand as a result of the economic downturn and increased competition in the consumer market. After giving effect to the distributor conversion, revenues from our PSoC solutions were unchanged in fiscal 2008 compared to fiscal 2007.

Data Communications Division:

Revenues from the Data Communications Division decreased $33.4 million in fiscal 2009, or approximately 26%, compared to fiscal 2008. The decrease was primarily attributable to a decrease of $29.7 million in sales of our specialty memory products due to the continued slow down in demand in the base-station market and our programmable logic devices primarily due to the decline in military and certain end of life shipments.

Revenues from the Data Communications Division increased $12.2 million in fiscal 2008, or approximately 10%, compared to fiscal 2007. The increase was primarily attributable to an increase of $39.3 million in sales of our West Bridge controllers and other products resulting from increased production and shipments to cell phone manufacturers. This increase was partially offset by $12.9 million in sales of our network search engine products as we divested the product families during fiscal 2007, and a decrease of $10.3 million in sales of our physical layer devices primarily due to the decline in military shipments.

Memory and Imaging Division:

Revenues from the Memory and Imaging Division decreased $24.2 million in fiscal 2009, or approximately 8%, compared to fiscal 2008. The decrease was primarily attributable to the economic slowdown impacting us by reducing sales by $17.7 million of our SRAM products in networking, consumer and communications applications.

Revenues from the Memory and Imaging Division decreased $17.9 million in fiscal 2008, or approximately 5%, compared to fiscal 2007. The distributor conversion contributed $7.1 million of the decrease between fiscal periods. After giving effect to the distributor conversion, the decrease was primarily attributable to a decrease of $16.2 million in sales of our pseudo-SRAM products as they were discontinued in fiscal 2007, offset by a $6.2 million increase in sales of other memory products due to increased demand for consumer and communication applications.

Emerging Technologies and Other:

Revenues from Emerging Technologies and Other increased $0.5 million in fiscal 2009, approximately 6%, compared to fiscal 2008. The increased in revenues was primarily attributable to an increase in demand as these business are new and growing.

Revenues from the Emerging Technologies and Other segment decreased $8.2 million in fiscal 2008, or approximately 52%, compared to fiscal 2007. The decrease in revenues was primarily due to the divestiture of our Silicon Valley Technology Center ("SVTC") business in fiscal 2007, which contributed $6.3 million of revenues in fiscal 2007.

Cost of Revenues / Gross Margin

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Cost of revenues	$ 397,204	$ 426,284	$ 448,847
Gross margin percentage	40.5%	44.3%	45.4%

Cost of revenue decreased from $426.3 million in fiscal 2008 to $397.2 million in fiscal 2009 and gross margin percentage decreased from 44.3% in fiscal 2008 to 40.5% in fiscal 2009. The gross margin decrease is primarily attributable to higher stock compensation of $12.8 million in fiscal 2009 compared to fiscal 2008 due to SunPower Spin-Off. The increase in stock-based compensation was mainly related to certain performance based awards. Additionally, the gross margin percentage was also unfavorably impacted by inventory write-downs, under absorbed costs and reduced revenue in 2009 as a result of the challenging economic conditions as we proactively reduced wafer starts in early 2009 to match supply with demand.

The decrease in the gross margin in fiscal 2008 compared to fiscal 2007 was primarily due to reduced factory utilization as we proactively managed inventory levels to a lowered end-customer demand resulting from the economic downturn. In addition, stock-based compensation expense allocated to cost of revenues increased $14.8 million mainly due to the modification of the outstanding employee equity awards approved by the Board in connection with the Spin-Off. 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 2008, the net impact of the inventory adjustments was a charge of $1.0 million compared to a charge of $4.1 million in fiscal 2007.

Research and Development ("R&D")

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
R&D expenses	$ 181,189	$ 193,522	$ 174,240
As a percentage of revenues	27.1%	25.3%	21.2%

R&D expenditures decreased $12.3 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily attributable to a $9.4 million reduction in employee related labor and other costs associated with the implementation of our Fiscal 2008/9 Restructuring Plan. In addition the decrease was also due to lower stock-based compensation expense of $1.6 million.

R&D expenses increased $19.3 million in fiscal 2008 compared to fiscal 2007. The increase was primarily due to an increase of $23.2 million in stock-based compensation expense related to the modification of the outstanding employee equity awards approved by the Board in connection with the Spin-Off. This increase was partially offset by the favorable impact of $4.3 million related to amounts recorded under our employee deferred compensation plan.

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 31, 2007
		(In thousands)	
SG&A expenses	$ 219,602	$ 248,579	$ 194,545
As a percentage of revenues	32.9%	32.5%	23.7%

SG&A expenses decreased $29.0 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily attributable to a reduction of $22.0 million in outside services and advertising expense coupled with a decrease in other costs associated with the implementation of our Fiscal 2008/9 Restructuring Plan as well as other cost reduction efforts. This amount was partially offset by an $8.2 million increase in stock-based compensation expense related to certain performance based awards.

SG&A expenses increased $54.0 million in fiscal 2008 compared to fiscal 2007. The increase was primarily attributable to an increase of $22.9 million in stock-based compensation expense mainly due to the modification of the outstanding employee equity awards approved by the Board in connection with the Spin-Off, an increase of $16.3 million in other employee-related costs primarily due to additional headcount in sales and marketing functions as we continue to invest in new products, a decrease of a $7.3 million benefit related to the release of the loan reserve under our employee stock purchase assistance plan, and an increase of $4.6 million in legal costs and other professional fees. This increase was partially offset by the favorable impact of $6.0 million related to amounts recorded under our employee deferred compensation plan.

Amortization of Acquisition-Related Intangible Assets

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Amortization of acquisition-related intangible assets	$ 3,804	$ 5,830	$ 7,901
As a percentage of revenues	0.6%	0.8%	1.0%

Amortization expense decreased $2.0 million in fiscal 2009 compared to fiscal 2008 and decreased $2.1 million in fiscal 2008 compared to fiscal 2007. The decrease in amortization was primarily due to certain intangible assets that had been fully amortized during fiscal 2008 partially offset by the increase in intangibles acquired as part of the Simtek acquisition.

Impairment of Goodwill

We performed our annual assessment of the carrying value of our goodwill balance during the fourth quarter of fiscal 2009 and 2008. Based on our annual assessment, no impairment was recorded in fiscal 2009. Because of the significant negative industry and economic trends affecting our operations and expected future growth during fiscal year 2008 as well as the general decline of industry valuations impacting our valuation, we determined that our goodwill was impaired and recorded an impairment loss of $351.3 million in fiscal 2008.

The following table indicates the number of reporting units tested for goodwill and the amount of goodwill impairment recorded in each reportable segment during fiscal year 2008:

Reportable Segments	Number of Reporting Units	Goodwill Impairment
Consumer and Computation Division	Three	$ 97.9 million
Data Communications Division	Two	$ 138.4 million
Memory and Imaging Division	Two	$ 115.0 million

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 during fiscal 2007.

Restructuring

We recorded restructuring charges of $15.2 million, $21.6 million and $0.6 million during fiscal 2009, 2008 and 2007, respectively. During the fiscal year, the savings from our actions taken to date was approximately $41.3 million. Upon completion of all of our actions we anticipate our annual savings in fiscal year 2010 to be approximately $67.8 million. We estimate the savings will proportionately impact sales general and administrative expense by 24%, cost of goods sold by 49% and research and development expense by 27% although there can be no assurance of this. See Note 11 of our Consolidated Financial Statements.

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Fiscal 2008/9 Restructuring Plan	$15,028	$ 11,783	$ —
Fiscal 2007 Restructuring Plan	214	9,860	583
Total restructuring charges	$15,242	$ 21,643	$ 583

Fiscal 2008/9 Restructuring Plan:

During the third quarter of fiscal 2008, we initiated a restructuring plan as part of a companywide cost saving initiative aimed to reduce operating costs in response to the economic downturn ("Fiscal 2008/9 Restructuring Plan"). At January 3, 2010, we recorded a total of $26.8 million under the Fiscal 2008/9 Restructuring Plan, of which $23.1 million was related to personnel costs and $3.7 million was related to other exit costs. The determination of when we accrue for severance costs, and what guidance applies, depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement.

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Initial provision	$ 11,611
Non-cash	(162)
Cash payments	(4,075)
Balance as of December 28, 2008	7,374
Provision	11,516
Non-cash	(1,352)
Cash payments	(14,271)
Balance as of January 3, 2010	$ 3,267

We eliminated approximately 835 positions and recorded total provisions of $23.1 million related to severance and benefits. The following table summarizes certain information related to the positions:

Locations	Number of Employees
Manufacturing facility in the Philippines	250
Manufacturing facility in Minnesota	160
Corporate and other	425
Total	835

In the fourth quarter of fiscal 2009, we substantially completed the terminations of the manufacturing employees of the Philippines and Minnesota locations. As of year end about 76 employees remained with us and we expect the majority of the employee terminations to be completed by the end of fiscal 2010.

Fiscal 2007 Restructuring Plan:

During the fourth quarter of fiscal 2007, we implemented a restructuring plan to exit our manufacturing facility located in Round Rock, Texas ("Fiscal 2007 Restructuring Plan"). Under the Fiscal 2007 Restructuring

Plan, we transitioned production from the Texas facility to our more cost-effective facility in Bloomington, Minnesota as well as outside third-party foundries. The Fiscal 2007 Restructuring Plan included the termination of employees and the planned disposal of assets, primarily consisting of land, building and manufacturing equipment, located in the Texas facility. The Fiscal 2007 Restructuring Plan did not involve the discontinuation of any material product lines or other functions.

To date, we recorded total restructuring charges of $10.7 million related to the Fiscal 2007 Restructuring Plan, of which $0.2 million was recorded in fiscal 2009, $9.9 million was recorded in fiscal 2008 and $0.6 million was recorded in fiscal 2007. Of the total restructuring charges, $8.0 million was related to personnel costs and $2.7 million was related to property, plant and equipment and other exit costs.

Personnel Costs:

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Initial provision	$ 355
Cash payments	—
Balance as of December 30, 2007	355
Additional provision	7,029
Cash payments	(4,663)
Balance as of December 28, 2008	2,721
Additional provision	627
Cash payments	(3,348)
Balance as of January 3, 2010	$ —

We completed the termination of the remaining employees in the first quarter of fiscal 2009; all balances related to benefits were paid by the third quarter of fiscal 2009.

Property, Plant and Equipment:

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

The following table summarizes the net book value of the remaining restructured assets that were classified as held for sale and included in "Other current assets" in the Consolidated Balance Sheet as of January 3, 2010:

(In thousands)	
Land	$ 994
Equipment	266
Buildings and leasehold improvements	6,430
Total property, plant and equipment, net	$ 7,690

We had expected to complete the disposal of the restructured assets by the fourth quarter of fiscal 2009, however, due to the downturn and uncertainty in the commercial real estate market we were unable to secure a buyer for the Texas facility. In response, we have revised the asking price for the property and expect to sell the facility in the next twelve months.

Gain on Divestitures

We recorded gain on divestitures totaling $10.0 million and $18.0 million during fiscal 2008 and fiscal 2007, respectively. We did not complete any divestitures during fiscal 2009.

Fiscal 2008:

In fiscal 2008, we completed the sale of certain product lines of our subsidiary, Silicon Light Machines ("SLM"), to Dainippon Screen Manufacturing Co. Ltd. in Japan for $11.0 million in cash. SLM was a part of our "Emerging Technologies and Other" reportable segment. The divestiture included SLM's micro-electro-mechanical system solutions for commercial printing and other imaging applications. We retained SLM's laser optical navigation sensor product family.

In connection with the divestiture, we recorded a gain of $10.0 million in fiscal 2008. The following table summarizes the components of the gain:

(In thousands)	
Cash proceeds	$11,000
Assets sold and liabilities assumed:	
Accounts receivable and inventories	(1,700)
Other	816
Transaction costs	(150)
Gain on divestiture	$ 9,966

Fiscal 2007:

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

In connection with the divestitures, we recorded total gain of $18.0 million for the year ended December 30, 2007. The following table summarizes the components of the gain:

	Image Sensors	SVTC	NSE	Total
		(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 costs	(845)	(640)	(25)	(1,510)
Gain on divestitures	$ 222	$ 10,560	$ 7,176	$ 17,958

Interest Income

Interest income decreased $19.8 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily driven by the impact of lower market interest rates.

Interest income decreased $16.7 million in fiscal 2008 compared to fiscal 2007. The decrease in interest income was primarily attributable to lower average cash balances in the second half of 2008 due to the reduction of our outstanding debt discussed below, the impact of lower market interest rates and the shift of our portfolio to safer and more liquid investments.

Interest Expense

In May 2008, guidance was issued which clarifies the accounting for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. This guidance specifies that an issuer of such instruments should separately account for the liability and equity components of the instruments in a manner that reflects the issuer's non-convertible debt borrowing rate when interest costs are recognized in subsequent periods. This guidance was effective for fiscal years beginning after December 15, 2008, and retrospective application was required for all periods presented. We adopted this guidance in the first quarter of fiscal 2009. See Note 2 of our Consolidated Financial Statements.

Interest expense was $1.2 million in fiscal 2009 compared to $26.8 million in fiscal 2008. The decrease was primarily attributable to the conversion element of the outstanding 1.00% Notes which resulted in the recording of $22.2 million non-cash interest expense in fiscal 2008 as a result of our retrospective application of the new guidance on convertible debt and lower outstanding debt balances in fiscal year 2009 due to the Note Tender Offer discussed below.

Interest expense was $26.8 million in fiscal 2008 compared to $30.4 million in fiscal 2007. The decrease of $3.6 million was primarily attributable to the conversion element of the outstanding 1.00% Notes which resulted in the recording of $22.2 million non-cash interest expense in fiscal 2008 compared to $24.6 million non-cash interest expense in fiscal 2007 as a result of our retrospective application of the new guidance on convertible debt and lower outstanding debt balances in fiscal 2008 due to the Note Tender Offer discussed below.

Note Tender Offer

In September 2008, we completed a tender offer to purchase for cash up to $531.3 million aggregate principal amount of the outstanding 1.00% Notes. In total $582.4 million aggregate principal of the 1.00% Notes were tendered. We accepted $531.3 million of the tendered 1.00% Notes at a purchase price of $1,321.22 per $1,000 principal amount, plus accrued and unpaid interest. Because more than $531.3 million principal amount was tendered, we purchased the 1.00% Notes on a pro rata basis. The pro-ration was based on the ratio of the principal amount of the 1.00% Notes tendered by a holder to the total principal amount of the 1.00% Notes tendered by all the holders. As a result of the Note Tender Offer, we paid $701.9 million in cash.

Gain on Sale of SunPower Common Stock

In fiscal 2008, we sold 2.5 million shares of SunPower Class A common stock (which were converted from Class B) in a private sale and received net proceeds of $222.5 million. The transaction resulted in a gain of $192.0 million in fiscal 2008.

In fiscal 2007, we sold 7.5 million shares of SunPower Class A common stock (which were converted from class B common stock) in a private sale. As a result of the transaction, we received net proceeds of $437.3 million and recorded a gain of $373.2 million in fiscal 2007.

Other Income (Expense), Net

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands)		
Amortization of debt issuance costs	$ (114)	$ (3,051)	$ (3,530)
Write-off of debt issuance costs (see Note 15)	—	(4,800)	(4,226)
Gain on investments (see Note 7)	822	—	929
Gain (loss) on debt extinguishment	—	2,193	(2,927)
Impairment of investments (see Note 8)	(2,549)	(13,355)	(1,903)
Changes in fair value of investments under the deferred compensation plan (see Note 17)	5,150	(10,643)	1,138
Foreign currency exchange gain (loss), net	(22)	2,925	(5,495)
Other	487	(335)	617
Total other income (expense), net	$ 3,774	$ (27,066)	$ (15,397)

Impairment of Investments:

The following table summarizes the impairment loss related to our investments:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands, except per-share amounts)		
Debt securities:			
Commercial paper	$ 197	$ 253	$ 435
Auction rate securities	1,393	3,860	—
Corporate bonds	140	562	—
Equity securities:			
Marketable equity securities	—	86	601
Non-marketable equity securities	819	8,594	867
Total impairment loss	$ 2,549	$ 13,355	$ 1,903

Auction Rate Securities:

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

As of January 3, 2010, 95% of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and approximately 5% of the student loan auction rate securities held by us have been downgraded from AAA or Aaa to Baa3. The downgrade event was due to the higher rates the issuer is paying out versus the lending rates, which is preventing the issuer from building excess spread as required under the prospectus. If the financial market continues to deteriorate, future downgrades could potentially impact the rating of our auction rate securities.

As of January 3, 2010, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, our auction rate securities totaling $32.7 million are classified as long-term investments as of January 3, 2010.

During fiscal 2009, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at January 3, 2010 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 2.31%—5.78%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 3, 2010, representing a decline in value of approximately $3.7 million. As a result of our adoption of new guidance in the second quarter of 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

Equity Securities:

We have equity investments in both public and privately held companies. We recognize an impairment charge when the carrying value of an investment exceeds its fair value and the decline in value is deemed other-than-temporary. We consider various factors in determining whether we should recognize an impairment charge on an investment in a public company, 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 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 discounted 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 recorded impairment charges of $0.8 million, $8.7 million and $1.5 million in fiscal 2009, 2008 and 2007, respectively, as we determined that the decline in value of our equity investments in certain public and privately held companies was other-than-temporary.

Employee Deferred Compensation Plan:

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

We account for the deferred compensation plan in accordance with the relevant accounting guidance, under which, the assets are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income.

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Changes in fair value of assets recorded in:			
Other income (expense), net	$ 5,150	$ (10,643)	$ 1,138
Changes in fair value of liabilities recorded in:			
Cost of revenues	(516)	2,129	(679)
R&D expenses	(1,454)	3,560	(782)
SG&A expenses	(3,168)	5,437	(596)
Total income (expense), net	$ 12	$ 483	$ (919)

Income Taxes

We recorded an income tax expense of $5.9 million in fiscal 2009, compared to an expense of $7.9 million in fiscal 2008 and an expense of $5.6 million in fiscal 2007. The tax expense in fiscal 2009 was primarily attributable to income taxes associated with the our non-U.S. operations. The tax expense in fiscal 2008 was attributable to non-deductible goodwill impairment and debt extinguishment losses, 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 alternative minimum tax and state taxes. The tax expense in fiscal 2007 was 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, partially offset by the amortization of deferred tax liabilities associated with purchased intangible assets. Our effective tax rate varies from the U.S. statutory rate primarily due to earnings of foreign subsidiaries taxed at different rates and a full valuation allowance on net operating losses incurred in the U.S. The calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. We regularly assess our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the many countries in which we and our affiliates do business.

During the third quarter of fiscal 2009, we resolved the Swiss income tax examination for fiscal 2006. No material adjustments were proposed.

The IRS is currently conducting audits of our federal income tax returns for fiscal 2006, 2007, and 2008. As of January 3, 2010, no adjustments to the tax liabilities have been proposed by the IRS. However, the IRS has not completed their examination and there can be no assurance that there will be no material adjustments upon completion of their review. In addition, non-U.S. tax authorities have completed their examination of our subsidiary in India for fiscal years 2005 and 2006. As of January 3, 2010, the proposed adjustments are being appealed. We believe the ultimate outcome of this appeal will not result in a material adjustment to the tax liability.

Discontinued Operations Attributable to Cypress:

Our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. The assets, liabilities and minority interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheets.

The following table summarizes the results of operations related to the discontinued operations through the date of the Spin-off:

	As of	
	December 28, 2008	December 30, 2007
	(In thousands)	
Revenues	$1,033,952	$ 774,790
Costs and expenses, net	967,716	780,817
Income (loss) from discontinued operations before income taxes	66,236	(6,027)
Income tax benefit (provision)	(31,850)	22,084
Income from discontinued operations attributable to Cypress, net of income taxes	$ 34,386	$ 16,057

LIQUIDITY AND CAPITAL RESOURCES

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

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Cash, cash equivalents and short-term investments	$299,642	$ 237,792
Working capital	$279,643	$ 241,370
Convertible debt	$ —	$ 27,023

Key Components of Cash Flows

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands)		
Net cash provided by operating activities of continuing operations	$ 89,303	$ 110,717	$ 129,165
Net cash provided by (used in) investing activities of continuing operations	$(43,126)	$ 337,376	$ 402,968
Net cash provided by (used in) financing activities of continuing operations	$ (7,368)	$(1,051,787)	$ 28,370

Fiscal 2009:

Net cash provided by operating activities decreased $21.4 million in fiscal 2009 compared to fiscal 2008. Operating cash flows in fiscal 2009 were primarily driven by a net loss of $150.4 million from continuing operations adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense, loss on property and equipment, impairment losses, restructuring charges and changes in operating assets and liabilities. The decrease in inventories was primarily attributable to increased demand as well as a decrease in stock-based compensation capitalized into inventory.

Net cash provided by investing activities decreased $380.5 million in fiscal 2009 compared to fiscal 2008. The decrease was primarily due to proceeds of $222.5 million from sale of SunPower stock during fiscal 2008. During fiscal 2009, our investing activities primarily included: (1) purchase of investments of $46.8 million, net of sales or maturities of our investments of $24.4 million, and (2) proceeds of $5.7 million from the sale of property. This cash inflow was offset by $25.8 million of property and equipment expenditures.

Net cash used in financing activities decreased $1.0 billion in fiscal 2009 compared to fiscal 2008. The decrease was primarily due to the redemption of our convertible debt for $743.0 million and repurchase of our common stock of $375.6 million during fiscal 2008. During fiscal 2009, our financing activities primarily included: (1) redemption of our 1.00% Notes which used $51.6 million, and (2) $46.3 million used to repurchase our common shares. These cash outflows were partially offset by: (1) proceeds of $101.6 million from the issuance of common shares under our employee stock plans, and (2) proceeds of $3.3 million from the termination of a portion of the convertible note hedge and warrants related to our 1.00% Notes.

Fiscal 2008:

Net cash provided by operating activities decreased $18.4 million in fiscal 2008 compared to fiscal 2007. Operating cash flows in fiscal 2008 were primarily driven by a net loss of $319.3 million from continuing operations which is primarily due to a $351.3 million impairment of goodwill. The net loss is also adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expense and associated excess tax benefits, interest and expenses on adoption of ASC 470, a gain on sale of SunPower common stock, impairment losses, gain on divestitures, restructuring charges and changes in operating assets and liabilities. The decrease in accounts receivable was primarily driven by lower sales. The increase in inventories was primarily attributable to a last-time build program on certain products manufactured in our Texas facility, as well as an increase in stock-based compensation capitalized into inventory.

Net cash provided by investing activities decreased $65.6 million in fiscal 2008 compared to fiscal 2007. During fiscal 2008, our investing activities primarily included: (1) our sale of SunPower common stock, which generated net proceeds of $222.5 million, (2) proceeds of $185.8 million from sales or maturities of our investments, net of purchases, and (3) proceeds of $11.0 million from a divestiture. These cash inflows were partially offset by: (1) $42.1 million of property and equipment expenditures, and (2) $41.6 million used in acquisitions of businesses, net of cash acquired.

Net cash used in financing activities increased $1.1 billion in fiscal 2008 compared to fiscal 2007. During fiscal 2008, our financing activities primarily included: (1) redemption of our 1.00% Notes which used $742.6 million and (2) $375.6 million used to repurchase our common shares. These cash outflows were partially offset by: (1) proceeds of $55.6 million from the issuance of common shares under our employee stock plans, and (2) proceeds of $7.8 million from the termination of a portion of the convertible note hedge and warrants related to our 1.00% Notes.

Fiscal 2007:

During fiscal 2007, net cash provided by operations decreased $48.9 million in fiscal 2007 compared to fiscal 2006. Operating cash flows in fiscal 2007 were primarily driven by net income of $366.9 million, adjusted for non-cash items including the gain on our sale of SunPower common stock, depreciation and amortization, stock-based compensation expense, interest and expenses on adoption of ASC 470, impairment losses, gain on divestitures, write-off of debt issuance costs, and changes in operating assets and liabilities. The decrease in accounts receivable was primarily attributable to lower sales. The increase in inventories was primarily attributable to the growth in our proprietary products.

Net cash provided by investing activities increased $481.7 million in fiscal 2007 compared to fiscal 2006. For fiscal 2007, investing activities primarily included: (1) our sale of 7.5 million shares of SunPower 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 employee loans. These cash inflows were partially offset by: (1) purchases of $109.3 million of investments, net of proceeds from sales and maturities, and (2) $36.8 million of property and equipment expenditures.

Net cash provided by financing activities decreased $42.6 million in fiscal 2007 compared to fiscal 2006. For fiscal 2007, financing activities primarily included: (1) receipt of $600.0 million from the issuance of our

1.00% Notes, and (2) issuance of common shares under our employee stock plans, which generated $210.2 million. These 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 our 1.25% Notes, which resulted in payments of approximately $179.7 million, (3) purchase of a convertible note hedge and issuance of warrants related to our 1.00% Notes, which used $17.0 million, and (4) payments of approximately $12.9 million in debt issuance costs.

Liquidity

Convertible Debt:

In September 2008, we completed a tender offer to purchase for cash up to $531.3 million aggregate principal amount of the 1.00% Notes. As a result of the tender offer, we paid $701.9 million in cash in the third quarter of fiscal 2008 at a purchase price of $1,321.22 per $1,000 principal amount, plus accrued and unpaid interest.

In November 2008, we made open market purchases of approximately $12.1 million of the outstanding 1.00% Notes at a slight discount to par, plus accrued interest.

Pursuant to the applicable Indenture, the Spin-Off of SunPower constituted both a fundamental change and a make-whole fundamental change to the 1.00% Notes. Consequently, the remaining holders were permitted to require us to purchase their 1.00% Notes on December 17, 2008, in cash at a price equal to $1,000 principal amount of the Notes, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. On December 17, 2008, we repurchased the principal amount of $28.7 million of the 1.00% Notes.

On September 15, 2009, our outstanding 1.00% Notes of approximately $28.0 million in principal matured and were settled. Holders received cash for the principal amount of the 1.00% Notes and the entire premium. The final conversion price per 1.00% Notes as calculated under the Indenture was $1,841.76 including principal and premium. Consistent with the terms of the Indenture, on September 15, 2009, we paid approximately $51.6 million for the principal amount of 1.00% Notes, premium and accrued and unpaid interest.

Auction Rate Securities:

As of January 3, 2010, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. Currently, these failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. We have classified our auction rate securities totaling $32.7 million as long-term investments as of January 3, 2010.

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

Based on the discounted cash flows, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 3, 2010. As a result of our adoption of new guidance in fiscal 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

Stock Repurchase Program:

In fiscal 2007, the Board authorized a stock repurchase program of up to $300.0 million. In fiscal 2008, the Board approved an additional $300.0 million, bringing the total amount that may have been used for stock purchases to $600.0 million under the stock repurchase program. The stock repurchase program was in addition to the accelerated share repurchase program associated with the 1.00% Notes.

During fiscal 2008, we used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. Approximately 12.6 million shares of this repurchase occurred prior to the Spin-Off at an average stock price of $21.95. The remaining 24.5 million shares were purchased after the Spin-Off at an average price of $4.03.

During fiscal 2009, we used $46.3 million to repurchase approximately 5.8 million shares at an average share price of $8.00. In light of certain tax constraints placed on us in connection with the tax-free spin of SunPower, we had no current intentions of repurchasing additional stock under the existing program. Accordingly, on October 28, 2009, the Audit Committee of the Board voted to rescind the remaining $178.1 million available under the program for additional repurchases.

Equity Option Contracts

As of December 31, 2006, we had outstanding a series of equity options on our 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 our stock price was above the threshold price of $21.00 per share, we would receive a settlement value totaling $30.3 million in cash. If our stock price was below the threshold price of $21.00 per share, we would receive 1.4 million shares of our common stock.

During fiscal 2007, the contracts expired and we did not renew them. We received 1.4 million shares of our common stock, which was accounted for as treasury stock.

On October 28, 2009 the Audit Committee approved a yield enhancement strategy intended to improve the yield on our available non-strategic cash. As part of this program, the Audit Committee authorized us to enter into short-term yield enhanced structured agreements correlated to our stock price. In one such structure, we pay a fixed sum of cash upon execution of an agreement in exchange for the counterparty's obligations to pay either a pre-determined amount of cash or shares of our stock depending on the closing market price of its common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our cash investment returned plus a yield substantially above the yield available today for short term cash investments. If the closing market price is at or below the pre-determined price, we will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on our stock price and does not require us to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

The decision to enter into a yield enhanced structured agreement is based upon a comparison of the yields available in the financial markets for similar maturities against the expected yield to be realized per the structured agreement and the related risks associated with this type of arrangement. We believe the risk associated with these types of agreements is no different than alternative investments available to us with equivalent counterparty credit ratings. All counterparties to a yield enhancement program have a credit rating of at least Aa2 or A as rated by major independent rating agencies. For all such agreements that matured in the fourth quarter of fiscal 2009, the yields of the structured agreements were far superior to the yields available in the financial markets primarily due to the volatility of our stock price and the pre-payment aspect of the agreements. The counterparty is willing to pay a premium over the yields available in the financial markets due to the structure of the agreement.

In the fourth quarter of fiscal 2009, we entered into short-term yield enhanced structured agreements totaling $68.0 million. We settled these agreements in the fourth quarter of fiscal 2009 and received $69.1 million in cash. In February 2010, we entered into two additional short-term yield enhanced structured agreements totaling $98.0 million. Upon settlement of these agreements, we expect to receive $101.4 million in cash. However if upon settlement of the agreements our stock price is at or below the pre-determined price, we will receive 9.0 million shares of our common stock.

Contractual Obligations

The following table summarizes our contractual obligations as of January 3, 2010:

	Payments Due by Years				
	Total	2010	2011 and 2012	2013 and 2014	After 2014
			(In thousands)		
Operating lease commitments	$ 31,666	$ 8,207	$ 12,915	$ 5,437	$ 5,107
Purchase obligations (1)	73,539	72,813	726	—	—
Total contractual obligations	$105,205	$81,020	$ 13,641	$ 5,437	$ 5,107

(1) Purchase obligations primarily include non-cancelable purchase orders for materials, services, manufacturing equipment, building improvements and supplies in the ordinary course of business. Purchase obligations are defined as enforceable agreements that are legally binding on us and that specify all significant terms, including quantity, price and timing.

As of January 3, 2010, our unrecognized tax benefits were $39.3 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.

Capital Resources and Financial Condition

Our long-term strategy is to maintain a minimum amount of cash for operational purposes and to invest the remaining amount of our cash in interest-bearing and highly liquid cash equivalents and debt securities. As of January 3, 2010, in addition to $243.6 million in cash and cash equivalents, we had $56.1 million invested in short-term investments for a total cash and short-term investment position of $299.6 million that is available for use in current operations. In addition, we had $34.4 million of long-term investments primarily consisting of auction rate securities.

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

Off-Balance Sheet Arrangement

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

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

Pursuant to the guarantees, we issued irrevocable letters of credit to secure the rental payments under the guarantees in the event a demand is made by the financing company on us. The amount available under the letters of credit will decline according to schedules mutually agreed upon by us and the financing company. If we default, the financing company will be entitled to draw on the letters of credit. We expect our obligations under the letters of credit to be reduced to zero by the end of fiscal 2010.

In connection with the guarantees, we were granted options to purchase ordinary shares of Grace. As of January 3, 2010, we determined that the fair value of the guarantees and the options was not material to our consolidated financial statements.

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

		Lease Term of Equipment Under Each Guarantee	Outstanding Rental Payments			Outstanding Irrevocable Letters of Credits			
				As of			As of		
Fiscal Year	**Number of Guarantees**		**At Inception**	**December 28, 2008**	**January 3, 2010**	**At Inception**	**December 28, 2008**	**January 3, 2010**	**Grace Options Granted to Cypress**
			(In thousands)						
2006	One	36 months	$ 8,255	$ 2,752	$ —	$ 6,392	$ 2,829	$ —	2,241
2007	Five	36 months	42,278	21,828	5,665	32,726	20,793	9,204	26,555
2008	One	36 months	10,372	7,778	3,457	7,918	7,010	4,206	11,524
			$ 60,905	$ 32,358	$ 9,122	$ 47,036	$ 30,632	$ 13,410	40,320

NON-GAAP FINANCIAL MEASURES

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles ("Non-GAAP") financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. To supplement our consolidated financial results presented in accordance with GAAP, we use non-GAAP financial measures which are adjusted from the most directly comparable GAAP financial measures to exclude certain items, as described below. Management believes that these non-GAAP financial measures reflect an additional and useful way of viewing aspects of our operations that, when viewed in conjunction with our GAAP results, provide a more comprehensive understanding of the various factors and trends affecting our business and operations. Non-GAAP financial measures used by us include:

Gross margin
Research and development expenses
Selling, general and administrative expenses
Operating income (loss)
Net income (loss)
Diluted net income (loss) per share

Our Non-GAAP measures primarily exclude stock-based compensation, acquisition-related charges, impairments to goodwill, gain or losses on divestiture, investment-related gains and losses, discontinued operations, restructuring costs and other special charges and credits. Management believes these Non-GAAP financial measures provide meaningful supplemental information regarding our 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 our historical operating results and comparisons to competitors' operating results.

We use each of these non-GAAP financial measures for internal managerial purposes, when providing our financial results and business outlook to the public, to facilitate period-to-period comparisons and are used to formulate our formula driven cash bonus plan and any milestone based stock awards. Management believes that these non-GAAP measures provide meaningful supplemental information regarding our 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 our historical operating results and comparisons to competitors' operating results.

The table below shows our Non-GAAP financial measures:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands, except per shares amounts)		
Non-GAAP gross margin	$ 314,558	$ 373,075	$ 385,650
Non-GAAP research and development expenses	145,879	153,416	158,310
Non-GAAP selling, general and administrative expenses	156,027	191,953	168,690
Non-GAAP operating income (loss) attributable to Cypress	12,649	27,706	58,650
Non-GAAP net income (loss) attributable to Cypress	17,743	32,647	80,566
Non-GAAP diluted net income (loss) per share attributable to Cypress	0.10	0.20	0.47

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

The following is a reconciliation of Non-GAAP measures to GAAP measures:

CYPRESS SEMICONDUCTOR CORPORATION
RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES
(In thousands, except per-share data)
(Unaudited)

	Twelve Months Ended		
	January 3, 2010	**December 28, 2008**	**December 30, 2007**
GAAP gross margin (a)	$ 270,582	$ 339,432	$ 372,750
Stock-based compensation expense	40,798	27,950	13,123
Impairment of assets	—	1,734	—
Write down of final build inventory	—	2,475	—
Other acquisition-related expense	559	1,616	16
Changes in value of deferred compensation plan	5	(132)	(239)
Other (b)	2,614	—	—
Non-GAAP gross margin	$ 314,558	$ 373,075	$ 385,650
GAAP research and development expenses	$ 181,189	$ 193,522	$ 174,240
Stock-based compensation expense	(37,537)	(39,089)	(15,870)
Other acquisition-related expense	(75)	(1,601)	(335)
Gain on sale of long-term asset	2,437	—	—
Changes in value of deferred compensation plan	(135)	584	275
Non-GAAP research and development expenses	$ 145,879	$ 153,416	$ 158,310
GAAP selling, general and administrative expenses	$ 219,602	$ 248,579	$ 194,545
Stock-based compensation expense	(63,477)	(55,306)	(32,399)
Other acquisition-related expense	(52)	(1,665)	(617)
Changes in value of deferred compensation plan	(46)	147	208
Release of allowance for uncollectible employee loans	—	198	6,953
Non-GAAP selling, general and administrative expenses	$ 156,027	$ 191,953	$ 168,690
GAAP operating income (loss)	$(149,255)	$ (471,433)	$ 6,433
Stock-based compensation expense	141,812	122,345	61,392
License royalty	2,614	—	—
Acquisition-related expense:			
Impairment of goodwill	—	351,257	—
Amortization of acquisition-related intangibles	3,804	5,830	7,901
Other acquisition-related expense	686	4,882	968
Gain on sale of long-term asset	(2,440)	—	—
Write down of final build inventory	—	2,475	—
Impairment related to synthetic lease	—	—	7,006
Changes in value of deferred compensation plan	186	(863)	(722)
Release of allowance for uncollectible employee loans	—	(198)	(6,953)
Impairment of assets	—	1,734	—
Gains on divestitures	—	(9,966)	(17,958)
Restructuring charges	15,242	21,643	583
Non-GAAP operating income	$ 12,649	$ 27,706	$ 58,650

CYPRESS SEMICONDUCTOR CORPORATION
RECONCILIATION OF GAAP FINANCIAL MEASURES TO NON-GAAP FINANCIAL MEASURES
(In thousands, except per-share data)
(Unaudited)

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
GAAP net income (loss) attributable to Cypress	$(150,424)	$ (284,876)	$ 382,919
Stock-based compensation expense	141,812	122,345	61,392
License royalty	2,614	—	—
Acquisition-related expense:			
Impairment of goodwill	—	351,257	—
Amortization of acquisition-related intangibles	3,804	5,830	7,901
Other acquisition-related expense	686	4,882	968
Gain on sale of long-term asset	(2,440)	—	—
Write down of final build inventory	—	2,475	—
Impairment related to synthetic lease	—	—	7,006
Changes in value of deferred compensation plan	186	(863)	(722)
Release of allowance for uncollectible employee loans	—	(198)	(6,953)
Impairment of assets	—	1,734	—
Gains on divestitures	—	(9,966)	(17,958)
Restructuring charges	15,242	21,643	583
Investment-related gains/losses	3,257	38,536	36,688
Gain on sale of Sunpower shares	—	(192,048)	(373,173)
Tax effects	3,006	6,282	(2,028)
Income from discontinued operations attributable to Cypress	—	(34,386)	(16,057)
Non-GAAP net income attributable to Cypress	$ 17,743	$ 32,647	$ 80,566
GAAP net income (loss) per share attributable to Cypress—diluted	$ (1.03)	$ (1.89)	$ 2.23
Stock-based compensation expense	0.97	0.74	0.36
License royalty	0.02	—	—
Acquisition-related expense:	—	—	—
Impairment of goodwill	—	2.11	—
Amortization of acquisition-related intangibles	0.03	0.04	0.05
Other acquisition-related expense	—	0.03	0.01
Gain on sale of long-term asset	(0.02)	—	—
Write down of final build inventory	—	0.01	—
Impairment related to synthetic lease	—	—	0.04
Changes in value of deferred compensation plan	—	(0.01)	—
Release of allowance for uncollectible employee loans	—	—	(0.04)
Impairment of assets	—	0.01	—
Gains on divestitures	—	(0.06)	(0.10)
Restructuring charges	0.10	0.13	—
Investment-related gains/losses	0.02	0.23	0.21
Gain on sale of Sunpower shares	—	(1.16)	(2.17)
Tax effects	0.02	0.04	(0.01)
Non-GAAP share count adjustment	(0.01)	0.18	(0.02)
Income from discontinued operations attributable to Cypress	—	(0.20)	(0.09)
Non-GAAP net income per share attributable to Cypress—diluted	$ 0.10	$ 0.20	$ 0.47

(a) During the third quarter of 2009, we identified historically immaterial errors related to the value of our raw material inventory balances located in the Philippines. We have determined that these errors were not material to any of the individual prior periods presented and accordingly, the financial statements for the twelve months ended December 28, 2008 have been recast to correct for the immaterial errors in accordance with SAB 108.

(b) Includes license royalties applicable to the total company.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board ("FASB") issued guidance surrounding noncontrolling interest in consolidated financial statements—an amendment to existing authoritative literature. The newly issued guidance requires recharacterizing minority interests as noncontrolling interests in addition to classifiying noncontrolling interest as a component of equity. The guidance also establishes reporting requirements to provide disclosures that identify and distinguish between the interests of the parent and the interests of noncontrolling owners. This guidance requires retroactive adoption of the presentation and disclosure requirements for existing minority interests—all other requirements are to be applied prospectively. All periods presented in these consolidated financial statements reflect the presentation and disclosure required by this guidance. All other requirements under the guidance are being applied prospectively. We adopted this guidance in the first quarter of fiscal 2009. Except for the presentation and disclosure requirements required by this guidance, there was no impact on our consolidated financial statements.

In May 2008, we adopted new accounting guidance which clarifies the accounting for convertible debt instruments as issued by the FASB. The guidance specifies that an issuer of such instruments should separately account for the liability and equity components of the instruments in a manner that reflects the issuer's non-convertible debt borrowing rate when interest costs are recognized in subsequent periods. The guidance was effective in the first quarter of 2009, and retrospective application is required for all periods presented. As a result of our adoption of this accounting guidance we recorded additional non-cash interest and other income (expense) of approximately $144.4 million and $(19.1) during fiscal 2008 and 2007, respectively.

In April 2009, the FASB issued new accounting guidance on how to determine the fair value of assets and liabilities. The accounting guidance relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms that the objective of fair value measurement is to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The new guidance was effective in the second quarter of 2009. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued new accounting guidance amending the other-than-temporary impairment guidance for debt securities and it improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. Under this guidance, if the debt security's market value is below amortized cost and we intend to either sell the security or it is more likely than not that we will be required to sell the security before its anticipated recovery, we would record an other-than-temporary impairment charge to other income and expense, net. If we do not intend to sell the security and it is more likely than not that we will not be required to sell the security before its anticipated recovery, the revised guidance requires us to determine the portion of the other-than-temporary impairment related to credit factors, or the credit loss portion, and the portion that is not related to credit factors, or the non-credit loss portion. The credit loss portion is the difference between the amortized cost of the security and our best estimate of the present value of the cash flows expected to be collected from the debt security and is recorded as a charge to other income and expense, net. The non-credit loss portion is the difference between the decline in fair value and the credit loss portion of the other-than-temporary impairment and is recorded as a separate component of other comprehensive income (loss). At adoption, the non-credit loss portion of the other-than-temporary impairment to date is to be recorded to accumulated other comprehensive income (loss), offset by an entry to the retained earnings as a one-time adjustment. As a result of our adoption of this accounting guidance in the second quarter of 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We do not expect the adoption of the updated guidance to have a material impact on our consolidated financial statements.

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 financial instruments, stock-based compensation, litigation and settlement costs, and income taxes. We base our estimates and judgments on historical experience, knowledge of current conditions and our beliefs of what could occur in the future considering available information. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies that are affected by significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements are as follows:

Revenue Recognition:

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

Sales to certain distributors are made under agreements which provide the distributors with price protection, other allowances and stock rotation under certain circumstances. Given the uncertainties associated with the rights given to these distributors, revenues and costs related to distributor sales are deferred until products are sold by the distributors to the end customers. Revenues are recognized upon receiving notification from those 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 those 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 revenue less cost of revenue on sales to distributors in the Consolidated Balance Sheets. The effects of distributor price adjustments are recorded as a reduction to deferred revenue 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. Historically these volume discounts have not been significant.

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 materially from those estimates.

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. As of January 3, 2010, we had total raw materials of $11.6 million, work-in-process of $56.9 million and finished goods of $22.7 million. Inventory reserves are not relieved until the related inventory has been sold or scrapped. Our inventories may be subject to rapid technological obsolescence and are sold in a highly competitive industry. If there were a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to record additional write-downs, and our gross margin could be adversely affected.

Valuation of Long-Lived Assets:

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

We evaluate our long-lived assets, including property, plant and equipment and purchased intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the assets or the strategy for our business, significant negative industry or economic trends, and a significant decline in our stock price for a sustained period of time. Impairments are recognized based on the difference between the fair value of the asset and its carrying value, and fair value is generally measured based on discounted cash flow analysis. If there is a significant adverse change in our business in the future, we may be required to record impairment charges on our long-lived assets. During the fourth quarter of fiscal 2009, we performed an impairment analysis for our long-lived assets and determined that there was no impairment.

Valuation of Goodwill:

We tested our goodwill on the reporting unit level. We have one reporting unit in our Consumer and Computation Division that has goodwill.

Management determines the fair value of our reporting unit using a combination of the income approach, which is based on a discounted cash flow analysis of the reporting unit, and the market approach, which is based on a competitor multiple assessment, if available. For our reporting unit, we weight the income approach 75% and the market approach 25%. The assumptions supporting the estimated future cash flows, including the discount rates, estimated terminal values and five-year annual growth rates, reflect management's best estimates. The discount rates were based upon our weighted average cost of capital as adjusted for the risks associated with our operations.

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. 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 our reporting unit. We performed our annual assessment of the carrying value of our goodwill balance during the fourth quarter of fiscal 2009. Our annual assessment did not result in an impairment charge. In fiscal 2008, as a result of the significant negative industry and economic trends affecting our operations and expected future growth as well as the general decline of industry valuations impacting our assessment, we determined that a portion of our goodwill was other-than-temporarily impaired and recorded an impairment loss of $351.3 million.

If our assumptions regarding forecasted revenue or growth rates on our remaining reporting unit are not achieved, we may be required to record additional goodwill impairment charges in future periods.

Fair Value of Financial Instruments:

Effective December 31, 2007, we adopted the provisions of the accounting guidance, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Our financial assets and financial liabilities that require recognition under the guidance include available-for-sale investments, employee deferred compensation plan and foreign currency derivatives. The guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. As such, fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that we have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Financial assets utilizing Level 1 inputs include U.S. treasuries, most money market funds, marketable equity securities and our employee deferred compensation plan;

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Financial assets and liabilities utilizing Level 2 inputs include foreign currency forward exchange contracts, most commercial paper and corporate notes and bonds; and
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Financial assets utilizing Level 3 inputs primarily include auction rate securities. We use an income approach valuation model to estimate the exit price of the auction rate securities, which is derived as the weighted-average present value of expected cash flows over various periods of illiquidity, using a risk adjusted discount rate that is based on the credit risk and liquidity risk of the securities.

Availability of observable inputs can vary from instrument to instrument and to the extent that valuation is based on inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by our management in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. In regards to our auction rate securities, the income approach valuation model was based on both Level 2 (credit quality and interest rates) and Level 3 inputs. We determined that the Level 3 inputs were the most significant to the overall fair value measurement, particularly the estimates of risk adjusted discount rates and ranges of expected periods of illiquidity.

Stock-Based Compensation:

Under the fair value recognition provisions of the guidance, 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.

Litigation 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, 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 is probable, and we can reasonably estimate the loss associated with such litigation, we will record the loss in accordance with accounting principles generally accepted in the United States. However, the actual liability in any such litigation 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

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

Auction Rate Securities

As of January 3, 2010, all our auction rate securities are classifies as Level 3 financial instruments. Auction rate securities are investments with contractual maturities generally between 20 and 30 years. The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the U.S. Federal Department of Education.

As of January 3, 2010, 95% of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and approximately 5% of the student loan auction rate securities have been downgraded from AAA or Aaa to Baa3. The downgrade event was due to the higher rates the issuer is paying out versus the lending rates, which is preventing the issuer from building excess spread as required under the prospectus. If the financial market continues to deteriorate, future downgrades could potentially impact the rating of our auction rate securities.

As of January 3, 2010, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, we have classified our auction rate securities totaling $32.7 million as long-term investments as of January 3, 2010.

During fiscal 2009, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at January 3, 2010 were as follows:

- 7 years to liquidity;

- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 2.31%—5.78%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 3, 2010, representing a decline in value of approximately $3.7 million. As a result of our adoption of new guidance in the second quarter of 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

The following table summarizes certain information related to our auction rate securities as of January 3, 2010:

	Fair Value	Fair Value Given a 100 Basis Point Increase in Interest Rates	Fair Value Given a 100 Basis Point Decrease in Interest Rates
		(In thousands)	
Auction rate securities	$32,740	$ 36,014	$ 29,466

Investments in Publicly Traded and Privately Held Companies

We have equity investments in certain publicly traded companies. The marketable equity securities are classified as available-for-sale investments and are recorded at fair value with unrealized gain (loss) reported as a component in "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. The fair value of the common stock is subject to market price volatility. The following table summarizes certain information related to these investments as of January 3, 2010:

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	$ 5,053	$ 5,558	$ 4,548

We also have equity investments in several privately held companies, many of which are start-ups or in development stages. These investments are inherently risky as the market for the technologies or products they have under development are typically in the early stages and may never materialize. As our equity investments generally do not permit us to exert significant influence or control, these amounts generally represent our cost of the investments, less any adjustments we make when we determine that an investment's net realizable value is less than its carrying cost. During fiscal 2009, we recorded total impairment charges of $0.8 million related to our investments in certain companies as the carrying value of such investments exceeded the fair value and the decline in value was deemed other-than-temporary. As of January 3, 2010, the carrying value of our investments in privately held companies was $0.4 million.

Foreign Currency Exchange Risk

We operate and sell products in various global markets. As a result, we are exposed to risks associated with changes in foreign currency exchange rates. Changes in exchange rates between foreign currencies and the U.S. dollar may adversely affect our operating margins. For example, when foreign currencies appreciate against the U.S. dollar, expenses denominated in foreign currencies become more expensive. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive for international customers, thus potentially leading to a reduction in demand, sales and profitability. Furthermore, many of our competitors are non U.S. companies that could benefit from such a currency fluctuation, making it more difficult for us to compete with those companies. Historically we have limited our hedging activities to the balance sheet using currency forward contracts between U.S. dollars and EURO as our revenue and expenses are predominantly recorded in the U.S. dollar except for local expenses outside the U.S.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 3, 2010	December 28, 2008
	(In thousands, except per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 243,558	$ 204,749
Short-term investments	56,084	33,043
Total cash, cash equivalents and short-term investments	299,642	237,792
Accounts receivable, net	86,959	91,943
Inventories	91,198	114,862
Other current assets	40,906	60,755
Total current assets	518,705	505,352
Property, plant and equipment, net	272,620	296,789
Goodwill	31,836	31,836
Intangible assets, net	15,132	18,678
Other long-term assets	74,215	76,077
Total assets	$ 912,508	$ 928,732
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 61,712	$ 42,570
Accrued compensation and employee benefits	37,756	44,115
Deferred revenues less cost of revenues	75,881	82,465
Income taxes payable	7,090	4,214
Convertible debt	—	27,023
Other current liabilities	56,623	63,595
Total current liabilities	239,062	263,982
Deferred income taxes and other tax liabilities	39,272	22,586
Other long-term liabilities	3,790	3,737
Total liabilities	282,124	290,305
Commitments and contingencies (Note 19)		
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; 235,409 and 204,849 shares issued; 159,382 and 136,503 shares outstanding at January 3, 2010 and December 28, 2008, respectively	2,354	2,048
Additional paid-in-capital	2,247,716	2,044,936
Accumulated other comprehensive income (loss)	(723)	2,533
Accumulated deficit	(569,744)	(424,631)
	1,679,603	1,624,886
Less: shares of common stock held in treasury, at cost; 76,027 and 68,346 shares at January 3, 2010 and December 28, 2008, respectively	(1,048,016)	(986,202)
Total Cypress stockholders' equity	631,587	638,684
Noncontrolling interest	(1,203)	(257)
Total stockholders' equity	630,384	638,427
Total liabilities and stockholders' equity	$ 912,508	$ 928,732

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands, except per-share amounts)		
Revenues	$ 667,786	$ 765,716	$ 821,597
Costs and expenses (credits):			
Cost of revenues	397,204	426,284	448,847
Research and development	181,189	193,522	174,240
Selling, general and administrative	219,602	248,579	194,545
Amortization of acquisition-related intangible assets	3,804	5,830	7,901
Impairment of goodwill	—	351,257	—
Impairment related to synthetic lease	—	—	7,006
Restructuring charges	15,242	21,643	583
Gain on divestitures	—	(9,966)	(17,958)
Total costs and expenses, net	817,041	1,237,149	815,164
Operating income (loss)	(149,255)	(471,433)	6,433
Interest income	2,101	21,904	38,644
Interest expense	(1,190)	(26,786)	(30,385)
Gain on sale of SunPower common stock	—	192,048	373,173
Other income (expense), net	3,774	(27,066)	(15,397)
Income (loss) from continuing operations before income taxes	(144,570)	(311,333)	372,468
Income tax provision	(5,854)	(7,929)	(5,606)
Income (loss) from continuing operations	(150,424)	(319,262)	366,862
Income from discontinued operations attributable to Cypress	—	34,386	16,057
Income from discontinued operations–noncontrolling interest, net of taxes	—	34,154	12,681
Noncontrolling interest, net of income taxes	(946)	(311)	(19)
Net income (loss)	(151,370)	(251,033)	395,581
Less net (income) loss attributable to noncontrolling interest	946	(33,843)	(12,662)
Net income (loss) attributable to Cypress	$(150,424)	$ (284,876)	$ 382,919
Net income (loss) per share–basic:			
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.36
Discontinued operations attributable to Cypress	—	0.23	0.10
Net income (loss) per share–basic	$ (1.03)	$ (1.89)	$ 2.46
Net income (loss) per share–diluted:			
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.13
Discontinued operations attributable to Cypress	—	0.23	0.10
Net income (loss) per share–diluted	$ (1.03)	$ (1.89)	$ 2.23
Shares used in net income (loss) per share calculation:			
Basic	145,611	150,447	155,559
Diluted	145,611	150,447	171,836

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount				Shares	Amount		
					(In thousands)				
Balances at December 31, 2006	145,071	$ 1,451	$1,591,771	$ (1,293)	$ (504,466)	227	$ (2,538)	$ 73	$ 1,084,998
Comprehensive income:									
Net income attributable to Cypress	—	—	—	—	382,919	—	—	—	382,919
Net unrealized gain on available-for-sale investments	—	—	—	5,274	—	—	—	—	5,274
Net unrealized loss on derivatives	—	—	—	(212)	—	—	—	—	(212)
Total comprehensive income	—	—	—	—	—	—	—	—	387,981
Issuance of common shares under employee stock plans	14,216	142	210,012	—	—	—	—	—	210,154
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	44	(1,159)	—	(1,159)
Redemption of convertible debt	33,045	330	418,931	—	—	—	—	—	419,261
Repurchases of common shares	—	—	—	—	—	28,862	(571,033)	—	(571,033)
Purchase of convertible note hedge, net of issuance of warrants	—	—	(16,967)	—	—	—	—	—	(16,967)
Stock-based compensation	—	—	63,146	—	—	—	—	—	63,146
Adjustments to accumulated deficit upon adoption of ASC 710 and ASC 740	—	—	—	—	(4,961)	—	—	—	(4,961)
Shares received upon settlement of equity option contract	—	—	25,991	—	—	1,442	(25,991)	—	—
Shares received upon settlement outstanding employee loans under the stock purchase assistance plan	—	—	—	—	—	84	(2,912)	—	(2,912)
Change of interest and noncontrolling interest of discontinued operations	—	—	173,687	7,863	(10,745)	—	(1,975)	(19)	168,811
Adjustment for convertible debt	—	—	34,118	—	—	—	—	—	34,118
Other	—	—	926	—	—	25	(500)	—	426
Balances at December 30, 2007	192,332	1,923	2,501,615	11,632	(137,253)	30,684	(606,108)	54	1,771,863
Comprehensive loss:									
Net loss attributable to Cypress	—	—	—	—	(284,876)	—	—	—	(284,876)
Net unrealized loss on available-for-sale investments	—	—	—	(3,125)	—	—	—	—	(3,125)
Net unrealized loss on derivatives	—	—	—	(212)	—	—	—	—	(212)
Total comprehensive loss	—	—	—	—	—	—	—	—	(288,213)
Issuance of common shares under employee stock plans	12,517	125	55,522	—	—	—	—	—	55,647
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	573	(6,163)	—	(6,163)
Excess tax benefits from stock-based award activities	—	—	9,132	—	—	—	—	—	9,132
Proceeds from termination of convertible note hedge and warrants	—	—	7,762	—	—	—	—	—	7,762
Repurchases of common shares	—	—	—	—	—	37,076	(375,560)	—	(375,560)
Stock-based compensation	—	—	128,798	—	—	—	—	—	128,798
Noncontrolling interest and other	—	—	(18)	—	—	—	—	(311)	(329)
Shares received upon settlement of outstanding employee loans under the stock purchase assistance plan	—	—	—	—	—	13	(347)	—	(347)
Adjustment for convertible debt	—	—	(200,242)	—	—	—	—	—	(200,242)
Spin-off of SunPower	—	—	(457,633)	(5,762)	(2,502)	—	1,976	—	(463,921)
Balances at December 28, 2008	204,849	$ 2,048	$2,044,936	$ 2,533	$ (424,631)	68,346	$(986,202)	$ (257)	$ 638,427

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

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Treasury Stock		Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount				Shares	Amount		
					(In thousands)				
Balances at December 28, 2008	204,849	$ 2,048	$2,044,936	$ 2,533	$ (424,631)	68,346	$ (986,202)	$ (257)	$ 638,427
Comprehensive loss:									
Net loss attributable to Cypress	—	—	—	—	(150,424)	—	—	—	(150,424)
Net unrealized gain on available-for-sale investments	—	—	—	1,988	—	—	—	—	1,988
Net unrealized gain on derivatives	—	—	—	9	—	—	—	—	9
Total comprehensive loss	—	—	—	—	—	—	—	—	(148,427)
Issuance of common shares under employee stock plans	30,560	306	101,332	—	—	—	—	—	101,638
Withholding of common shares for tax obligations on vested restricted shares	—	—	—	—	—	1,890	(15,493)	—	(15,493)
Redemption of convertible debt	—	—	(23,553)	—	—	—	—	—	(23,553)
Unwinding of hedge for convertible debt	—	—	3,312	—	—	—	—	—	3,312
Yield enhancement structured agreements	—	—	1,048	—	—	—	—	—	1,048
Repurchases of common shares	—	—	—	—	—	5,791	(46,321)	—	(46,321)
Stock-based compensation, net	—	—	120,662	—	—	—	—	—	120,662
Reclassification of impairment loss on auction rate securities	—	—	—	(5,253)	5,253	—	—	—	—
Noncontrolling interest and other	—	—	(21)	—	58	—	—	(946)	(909)
Balances at January 3, 2010	235,409	$ 2,354	$2,247,716	$ (723)	$ (569,744)	76,027	$(1,048,016)	$ (1,203)	$ 630,384

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

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Cash flows from operating activities:			
Net income (loss)	$(151,370)	$ (251,033)	$ 395,581
Less income from discontinued operations, net of taxes	—	(68,540)	(28,738)
Income (loss) from continuing operations	$(151,370)	$ (319,573)	$ 366,843
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	55,799	73,876	91,683
Stock-based compensation expense	141,812	122,345	61,392
Interest and other non-cash expense related to ASC 470	1,090	(147,044)	11,996
(Gain)/loss on extinguishment of debt	—	(2,193)	2,927
Excess tax benefits from stock-based award activities	—	(9,132)	—
Impairment of goodwill	—	351,257	—
Impairment related to synthetic lease	—	—	7,006
Impairment of investments	2,549	13,355	1,903
Write-off of debt issuance costs	—	4,800	4,226
Loss on property and equipment, net	2,146	8,004	245
Gain on divestitures	—	(9,966)	(17,958)
Gain on sale of SunPower's common stock	—	(192,048)	(373,173)
(Gain)/loss on investments	(822)	—	(929)
Gain on deferred compensation plan	—	—	(2,124)
Interest on the stock purchase assistance plan ("SPAP") loans	15	(12)	(976)
Reduction in allowance for uncollectible SPAP loans	(426)	(198)	(7,479)
Restructuring charges	15,242	21,643	583
Deferred income taxes	2,056	(26,443)	5,797
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	4,983	7,532	13,991
Inventories	18,276	(1,015)	(10,289)
Other assets	18,810	67,850	(42,787)
Accounts payable and other accrued liabilities	(14,273)	103,713	22,753
Deferred revenues less cost of revenues	(6,584)	43,966	(6,465)
Net cash provided by operating activities of continuing operations	89,303	110,717	129,165
Net cash provided by operating activities of discontinued operations	—	107,845	2,372
Net cash provided by operating activities	89,303	218,562	131,537
Cash flows from investing activities:			
Purchases of available-for-sale investments	(46,768)	(176,458)	(311,824)
Proceeds from sales or maturities of available-for-sale investments	24,445	362,247	202,478
Proceeds from sale of SunPower's common stock	—	222,474	437,250
Increase (decrease) in employee deferred compensation plan	(665)	1,417	76
Cash paid for other investments	(76)	(1,737)	(867)
Acquisition of property, plant and equipment	(25,823)	(42,132)	(36,779)
Cash used for acquisitions, net of cash acquired	—	(41,551)	—
Proceeds from divestitures	—	11,000	78,398
Proceeds from settlement of SPAP loan principal	45	334	27,585
Proceeds from deferred compensation plan	—	—	6,608
Proceeds from sales of property and equipment	5,716	1,782	43
Net cash provided by (used in) investing activities of continuing operations	(43,126)	337,376	402,968
Net cash used in investing activities of discontinued operations	—	(167,111)	(474,118)
Net cash provided by (used in) investing activities	(43,126)	170,265	(71,150)

CYPRESS SEMICONDUCTOR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Cash flows from financing activities:			
Excess tax benefits from stock-based award activities	—	9,132	—
Withholding of common shares for tax obligations on vested restricted shares	(15,493)	(6,163)	(1,159)
Redemption of convertible debt	(51,552)	(742,605)	(179,735)
Proceeds from issuance of convertible debt	—	—	600,000
Debt issuance costs	—	—	(12,890)
Purchase of convertible note hedge, net of proceeds from issuance of warrants	—	—	(16,967)
Proceeds from termination of convertible note hedge and warrants	3,312	7,762	—
Repurchase of common shares	(46,321)	(375,560)	(571,033)
Issuance of common shares and re-issuance of treasury shares under employee stock plans	101,638	55,647	210,154
Yield enhancement structured agreements	1,048	—	—
Net cash provided by (used in) financing activities of continuing operations	(7,368)	(1,051,787)	28,370
Net cash provided by financing activities of discontinued operations	—	31,832	584,625
Net cash provided by (used in) financing activities	(7,368)	(1,019,955)	612,995
Effect of exchange rate changes on cash and cash equivalents	—	(1,163)	6,739
Net increase (decrease) in cash and cash equivalents	38,809	(632,291)	680,121
Cash and cash equivalents, beginning of year	204,749	1,093,657	413,536
Cash and cash equivalents, end of year	243,558	461,366	1,093,657
Less cash and cash equivalents of discontinued operations	—	(256,617)	(285,214)
Cash and cash equivalents of continuing operations, end of year	$243,558	$ 204,749	$ 808,443
Supplemental disclosures:			
Cash paid for interest:			
Continuing operations	$ 305	$ 6,181	$ 3,033
Discontinued operations	—	4,856	3,316
Total	$ 305	$ 11,037	$ 6,349
Cash paid for income taxes:			
Continuing operations	$ 3,433	$ 13,703	$ 2,786
Discontinued operations	—	1,265	887
Total	$ 3,433	$ 14,968	$ 3,673
Non-cash items for continuing operations:			
Issuance of common shares from redemption of convertible debt	$ —	$ —	$ 419,261
Purchase of properties under the synthetic lease, using restricted cash collateral	$ —	$ —	$ 50,087
Non-cash items for discontinued operations:			
Issuance of common shares and stock options in connection with acquisition	$ —	$ —	$ 132,546

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. Our offerings include the PSoC® programmable system-on-chip, universal serial bus ("USB") controllers, general-purpose programmable clocks and memories. We also offer wired and wireless connectivity technologies that enhance connectivity and performance in multimedia handsets. We serve numerous markets including consumer, computation, data communications, automotive, and industrial.

Our operations outside of the United States include our manufacturing facilities, assembly and test plants and a regional headquarters in the Philippines, and sales offices and design centers located in various parts of the world.

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 our subsidiaries. Inter-company transactions and balances have been eliminated in consolidation.

On September 29, 2008, we completed the spin-off of SunPower Corporation ("SunPower"), a majority owned subsidiary through the distribution of a tax-free stock dividend to our stockholders. As a result, our historical financial statements have been restated to account for SunPower as a discontinued operation for all periods presented in this Annual Report on Form 10-K. See Note 3 for further discussion.

In June 2009, the Financial Accounting Standards Board ("FASB") approved the FASB Accounting Standards Codification ("the Codification") as the single source of authoritative nongovernmental generally accepted accounting principles ("GAAP"). All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force ("EITF") and other related literature, excluding guidance from the Securities and Exchange Commission ("SEC"), have been superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become non authoritative. The Codification did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The Codification was effective for interim or annual periods ended after September 15, 2009, and impacted our consolidated financial statements as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

Certain prior year balances have been revised to conform to current year presentation, including the retrospective application of adopting the accounting guidance, under which the liability and equity components of convertible debt instruments that may be settled wholly or partially in cash upon conversion must be accounted for separately in a manner reflective of our nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. We have retrospectively applied this change in accounting to affected accounts for all periods presented. Refer to Note 2 for more information.

Unless otherwise indicated, the Notes to the Consolidated Financial Statements relate to the discussion of our continuing operations.

Fiscal Years

Our fiscal year ends on the Sunday closest to December 31. Fiscal 2009 ended on January 3, 2010, fiscal 2008 ended on December 28, 2008, and fiscal 2007 ended on December 30, 2007. Fiscal 2009 contained 53 weeks, fiscal 2008 and fiscal 2007 contained 52 weeks.

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, inventory valuation, valuation of goodwill and intangible assets, valuation of investments, valuation of stock-based payment awards, allowances for doubtful accounts, warranty reserves, restructuring costs, certain other accrued liabilities and tax valuation allowances. Actual results could differ from those estimates. To the extent there are material differences between the estimates and actual results our future results of operations will be impacted.

Fair Value of Financial Instruments

For certain of our 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. Certificates of deposit are carried at cost which approximates fair value based on current interest rates. Investments in available-for-sale securities are carried at fair value. See Note 7 for a detailed discussion of the fair value measurements on our available-for-sale investments and Note 15 regarding the fair value of our convertible debt as of December 28, 2008.

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 our investments in debt securities and 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 and losses, net of tax, as a component of "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. Our certificates of deposit are non-tradable and are carried at cost. We also have equity investments in privately held companies. These investments are generally carried at cost and are included in "Other assets" in the Consolidated Balance Sheets.

We monitor our investments for impairment periodically and record appropriate reductions in carrying values when the declines are determined to be other-than-temporary. See Note 8 for a detailed discussion of the impairment losses recorded on our investments.

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. We write down our 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

We evaluate our long-lived assets, including property, plant and equipment and intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors considered important that could result in an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of acquired assets, significant negative industry or economic trends, and a significant decline in our 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, appraisals or discounted cash flow analyses.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. 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. Refer to Note 6 for more information.

Revenue Recognition

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

Sales to certain distributors are made under agreements which provide the distributors with price protection, stock rotation and other allowances under certain circumstances. Given the uncertainties associated with the rights given to these distributors, revenues and costs related 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. Historically these volume discounts have not been significant.

Shipping and Handling Costs

We record costs related to shipping and handling in cost of revenues.

Advertising Costs

Advertising costs consist of development and placement costs of our advertising campaigns and are charged to expense when incurred. Advertising expense was approximately $4.5 million, $7.7 million and $5.7 million for fiscal 2009, 2008 and 2007, respectively.

Foreign Currency Transactions

We use the United States dollar predominately as the functional currency for our 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 and losses from foreign currency remeasurement are included in "Other income (expense), net" in the Consolidated Statements of Operations.

Concentration of Credit Risk

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

We perform ongoing credit evaluations of our customers' financial condition whenever deemed necessary and generally do not require collateral. We maintain an allowance for doubtful accounts based upon the expected collectability of all accounts receivable. One global distributor accounted for 16% of consolidated accounts receivable as of January 3, 2010. One global distributor accounted for 13% of consolidated accounts receivable as of December 28, 2008. One contract manufacturer for an OEM accounted for 11% of consolidated accounts receivable in 2009. No contract manufacturers accounted for more than 10% of consolidated accounts receivable in 2008.

One global distributor accounted for 14% of our total revenues for fiscal 2009. Two distributors accounted for 13% and 11% of our total revenues for fiscal 2008. Two distributors accounted for 14% and 12% of our total revenues for fiscal 2007. There was no single end customer in 2009, 2008 or 2007 that accounted for more than 10% of total revenue

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 our 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. We recognize potential liabilities for anticipated tax audit issues in the United States 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 assessment, a further charge to expense would result.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued guidance surrounding noncontrolling interest in consolidated financial statements—an amendment to existing authoritative literature. The newly issued guidance requires recharacterizing minority interests as noncontrolling interests in addition to classifiying noncontrolling interest as a component of equity. The guidance also establishes reporting requirements to provide disclosures that identify and distinguish between the interests of the parent and the interests of noncontrolling owners. This guidance requires retroactive adoption of the presentation and disclosure requirements for existing minority interests—all other requirements are to be applied prospectively. All periods presented in these consolidated financial statements reflect the presentation and disclosure required by this guidance. All other requirements under the guidance are being applied prospectively. We adopted this guidance in the first quarter of fiscal 2009. Except for the presentation and disclosure requirements required by this guidance, there was no impact on our consolidated financial statements.

In May 2008, we adopted new accounting guidance which clarifies the accounting for convertible debt instruments as issued by the FASB. The guidance specifies that an issuer of such instruments should separately account for the liability and equity components of the instruments in a manner that reflects the issuer's non-convertible debt borrowing rate when interest costs are recognized in subsequent periods. The guidance was effective in the first quarter of 2009, and retrospective application is required for all periods presented. As a result of our adoption of this accounting guidance we recorded additional non-cash interest and other income (expense) of approximately $144.4 million and $(19.1) million during fiscal 2008 and 2007, respectively.

In April 2009, the FASB issued new accounting guidance on how to determine the fair value of assets and liabilities. The accounting guidance relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms that the objective of fair value measurement is to reflect how much an asset would be sold for in an orderly transaction (as opposed to a distressed forced transaction) at the date of the financial statements under current market conditions. Specifically, it reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. The new guidance was effective in the second quarter of 2009. The adoption of the guidance did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued new accounting guidance amending the other-than-temporary impairment guidance for debt securities and it improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. Under this guidance, if the debt security's market value is below amortized cost and we intend to either sell the security or it is more likely than not that we will be required to sell the security before its anticipated recovery, we would record an other-than-temporary impairment charge to other income and expense, net. If we do not intend to sell the security and it is more likely than not that we will not be required to sell the security before its anticipated recovery, the revised guidance requires us to determine the portion of the other-than-temporary impairment related to credit factors, or the credit loss portion, and the portion that is not related to credit factors, or the non-credit loss portion. The credit loss portion is the difference between the amortized cost of the security and our best estimate of the present value of the cash flows expected to be collected from the debt security and is recorded as a charge to other income and expense, net. The non-credit loss portion is the difference between the decline in fair value and the credit loss portion of the other-than-temporary impairment and is recorded as a separate component of other comprehensive income (loss). As a result of our adoption of this accounting guidance in the second quarter of 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

In January 2010, the FASB issued updated guidance related to fair value measurements and disclosures, which requires a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, in the reconciliation for fair value measurements using significant unobservable inputs, or Level 3, a reporting entity should disclose separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than one net number). The updated guidance also requires that an entity should provide fair value measurement disclosures for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements for Level 2 and Level 3 fair value measurements. The updated guidance is effective for interim or annual financial reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. We do not expect the adoption of the updated guidance to have a material impact on our consolidated financial statements.

NOTE 2. REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

Impact of the adoption of authoritative guidance regarding convertible debt:

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

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

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

Our adoption resulted in higher interest and other income (expense) of $144.4 million and $(19.1) million in fiscal 2008 and 2007, respectively. As of December 28, 2008, there was $1.0 million of the initial $70.6 million debt discount (1.00% Notes) which remained unamortized. As of September 27, 2009, all of the debt had matured or been redeemed and the debt discount was fully amortized. The tax effect of our adoption was immaterial to our consolidated financial statements.

Inventory Adjustment

During the third quarter of 2009, we identified historically immaterial errors related to the value of our raw material inventory balances located in the Philippines. We assessed the materiality of these errors on prior period financial statements and concluded that the errors were not material to any prior annual or interim periods but the cumulative error would be material in the third quarter of fiscal 2009, if the entire correction was recorded in the third quarter. Accordingly, we have revised certain prior year amounts and balances to allow for the correct recording of these transactions.

The following table summarizes the effects of the new authoritative guidance regarding convertible debt and the correction to inventory and accumulated deficit on our Consolidated Statements of Operations for the year ended December 28, 2008 and December 30, 2007 and on our Consolidated Balance Sheet as of December 28, 2008:

	Year Ended	
	December 28, 2008	December 30, 2007
	(In thousands)	
Operating income (loss) as reported	$ (469,868)	$ 9,410
Correction of inventory error	(1,565)	(2,977)
Operating income (loss) as revised	$ (471,433)	$ 6,433
Income (loss) from continuing operations as reported	$ (462,136)	$ 388,988
Adjustment per convertible debt	144,439	(19,149)
Correction of inventory error	(1,565)	(2,977)
Income (loss) from continuing operations as revised	$ (319,262)	$ 366,862

	As of
	December 28, 2008
	(In thousands)
Inventories as reported	$ 121,889
Correction of inventory error	(7,027)
Inventories as revised	$ 114,862
Convertible debt as reported	$ 27,999
Adjustment per convertible debt	(976)
Convertible debt as revised	$ 27,023

There was no tax effect for the inventory error correction for fiscal year 2008 due to the immaterial impact in foreign jurisdictions and the negligible impact on our net operating loss carry forwards in the United States against which we have a full valuation allowance.

For fiscal 2008 and 2007, the impact of the error correction on gross profit was $1.6 million and $3.0 million, respectively. This amount represented 0.5% and 0.8% of the gross margin for fiscal 2008 and 2007, respectively.

There was no impact on the Consolidated Statements of Cash Flows for fiscal year 2008 or 2007.

NOTE 3. SUNPOWER

The following table summarizes our historical ownership interest in SunPower which shares were distributed to our stockholders in the fourth quarter of 2008:

	As of	
	September 28, 2008	December 30, 2007
Number of shares of SunPower Class B common stock owned by Cypress	42.0 million	44.5 million
As a percentage of SunPower's total outstanding capital stock	50%	56%
As a percentage of SunPower's total outstanding capital stock on a fully diluted basis	47%	51%
As a percentage of the total voting power of SunPower's outstanding capital stock	89%	90%

Sale of SunPower's Common Stock:

In fiscal 2008, we sold 2.5 million shares of SunPower Class A common stock (which were converted from Class B) in a private sale and received net proceeds of $222.5 million. The transaction resulted in a gain of $192.0 million.

In fiscal 2007, we completed the sale of 7.5 million shares of SunPower Class A common stock (which were converted from class B common stock) in a private sale. As a result of the transaction, we received net proceeds of $437.3 million and recorded a gain of $373.2 million in fiscal 2007.

Sale of Manufacturing Facility:

In fiscal 2003, SunPower entered into a lease agreement with us under which SunPower leased a manufacturing facility owned by us with approximately 215,000 square feet in the Philippines and a sublease for the land owned by an unaffiliated third party. SunPower had the right to purchase the facility from us and assume the lease for the land at any time for an amount equal to our original purchase price of $8.0 million, plus interest computed on a variable index starting on the date of purchase by us until the sale to SunPower. In the second quarter of fiscal 2008, SunPower exercised its right and purchased the facility from us and assumed the lease for the land from the unaffiliated third party for a total purchase price of approximately $9.5 million.

Spin-Off of SunPower

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

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

Our former subsidiary, SunPower, announced in the fourth quarter of fiscal 2009 that certain of its previously issued financial statements could no longer be relied upon. In the course of the preparation of this annual report on Form 10-K, we evaluated the information available to us to date with respect to SunPower's ongoing investigation of its historical financial statements and concluded that such information would not give rise to a material impact on our previously issued financial statements.

Discontinued Operations Attributable to Cypress:

Our historical consolidated financial statements have been recast to account for SunPower as discontinued operations for all periods presented. Accordingly, we have reflected the results of operations of SunPower prior to the Spin-Off as discontinued operations in the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows. The assets, liabilities and minority interest related to SunPower were reclassified and reflected as discontinued operations in the Consolidated Balance Sheets.

The following table summarizes the results of operations related to the discontinued operations through the date of the Spin-Off:

	Year Ended	
	December 28, 2008	December 30, 2007
	(In thousands)	
Revenues	$ 1,033,952	$ 774,790
Costs and expenses, net	967,716	780,817
Income (loss) from discontinued operations attributable to Cypress before income taxes	66,236	(6,027)
Income tax benefit (provision)	(31,850)	22,084
Income from discontinued operations attributable to Cypress, net of income taxes	$ 34,386	$ 16,057

The distribution of the SunPower Class B common stock on September 29, 2008 resulted in the elimination of $996.6 million of net assets of discontinued operations and a reduction of $463.9 million to stockholders' equity.

Adjustments to Cypress's Stock Plans:

See Note 9 for a discussion of the adjustments approved by the Board on our stock plans as a result of the Spin-Off.

Amended Tax Sharing Agreement:

See Note 18 for a discussion of the amended tax sharing agreement between SunPower and us as a result of the Spin-Off.

NOTE 4. BUSINESS COMBINATION

Simtek Corporation ("Simtek")

In September 2008, we completed the acquisition of Simtek, a publicly traded manufacturer of non-volatile static random access memory integrated circuits used in a variety of systems. The purchase was completed through a step acquisition and the total consideration included $3.6 million which reflects an initial investment we made in Simtek in prior periods. This initial investment consisted of a then 5% equity ownership and warrants to purchase 2.5 million shares of Simtek's common stock. In September 2008, we completed a cash tender offer and purchased all of Simtek's outstanding common stock not owned by us at a purchase price of $2.60 per share for a total cash payment of $43.9 million and incurred direct transaction costs of $1.1 million. The following table summarizes the total purchase price:

(In thousands)	
Cash	$ 43,853
Initial investment	3,560
Transaction costs	1,126
Total purchase price	$ 48,539

The fair value of the assets acquired and liabilities assumed was recorded in our consolidated balance sheet as of the acquisition date. The results of operations of Simtek were included in our consolidated results of operations subsequent to the acquisition date. Simtek is included in our Memory and Imaging Division.

Purchase Price Allocation:

We finalized the purchase price allocation in the fourth quarter of fiscal 2008. The following table summarizes the amounts:

	As Adjusted (In thousands)
Net tangible assets	$ 811
Acquired identifiable intangible assets:	
Purchased technology	12,975
Backlog	1,116
Customer relationships	370
Goodwill	33,267
Total purchase consideration	$ 48,539

Net Tangible Assets:

Net tangible assets consisted of the following:

(In thousands)	
Cash and cash equivalents	$ 2,302
Accounts receivable, net	2,451
Inventories	4,933
Other	1,430
Total assets acquired	11,116
Accounts payable	(8,476)
Other accrued expenses and liabilities	(1,829)
Total liabilities assumed	(10,305)
Total net tangible assets	$ 811

Acquired Identifiable Intangible Assets:

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

Intangible Assets	Method of Valuation	Discount Rate Used	Estimated Useful Lives
Purchased technology	Income Approach	18%	4–6 years
Backlog	Income Approach	10%	0.5 year
Customer relationships	Cost Approach	—	1.5 years

In-Process Research and Development:

We identified in-process research and development projects in areas for which technological feasibility had not been established and no alternative future use existed. In identifying and analyzing Simtek's potential in-process research and development projects, we considered key characteristics of the technology as well as project stages of development, the time and resources needed to complete the current projects, the expected income-generating abilities of the resulting projects, the target markets and associated risks. We concluded that Simtek had one in-process research and development project, which is a higher density form of non-volatile dynamic random access memory for gaming, automated teller machine and solid state disk drive applications. Using the income approach method with a discount rate of 22%, we determined that the fair value of the in-process research and development project was zero at the date of acquisition.

Goodwill:

Simtek's non-volatile memory products provide the high-speed memory access of standard static random access memories, but retain data when power is turned off—a feature critical to applications where secure data storage is essential to system functionality. The acquisition will enable us to integrate Simtek's technology into many of our products, providing a highly integrated control and power failure solution for complex analog and digital systems and accelerating acceptance of our products in various applications and markets. These factors primarily contributed to a purchase price that resulted in goodwill. Goodwill that resulted from the acquisition is not deductible for tax purposes.

Subsequent to the acquisition, we determined that our goodwill was other-than-temporarily impaired and recorded an impairment loss of $351.3 million, which included $33.3 million related to the Simtek acquisition, for the year ended December 28, 2008. See Note 6 for more information.

Preexisting Relationship:

Prior to the acquisition in September 2008, Cypress and Simtek had a joint license and development agreement under which we licensed certain intellectual property from Simtek to develop non-volatile memory products and made a non-refundable prepayment of royalties to Simtek. The agreement was settled upon the completion of the acquisition. In accordance with the accounting guidance relating to the accounting for a preexisting relationship between parties to a business combination, we recorded a settlement loss of $1.1 million as a result of the termination of the agreement in the Consolidated Statement of Operations for fiscal 2008.

Pro Forma Financial Information:

The following unaudited pro forma financial information presents the combined results of operations of Cypress and Simtek as if the acquisitions had occurred as of the beginning of fiscal 2008 and 2007:

	Year Ended	
	December 28, 2008	December 30, 2007
	(In thousands, except per-share amounts)	
Revenues	$ 784,578	$ 854,604
Income (loss) from continuing operations	$ (336,473)	$ 358,161
Income (loss) per share from continuing operations:		
Basic	$ (2.24)	$ 2.30
Diluted	$ (2.24)	$ 2.09

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

NOTE 5. DIVESTITURES

Fiscal 2008

In fiscal 2008, we completed the sale of certain product lines of its subsidiary, Silicon Light Machines ("SLM"), to Dainippon Screen Manufacturing Co. Ltd. in Japan for $11.0 million in cash. SLM was a part of our "Other" reportable segment. The divestiture included SLM's micro-electro-mechanical system solutions for commercial printing and other imaging applications. We retained SLM's laser optical navigation sensor product family.

In connection with the divestiture, we recorded a gain of $10.0 million for the year ended December 28, 2008. The following table summarizes the components of the gain:

(In thousands)	
Cash proceeds	$ 11,000
Assets sold and liabilities assumed:	
Accounts receivable and inventories	(1,700)
Other	816
Transaction costs	(150)
Gain on divestiture	$ 9,966

Fiscal 2007

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

In connection with the divestitures, we recorded total gain of $18.0 million for the year ended December 30, 2007. The following table summarizes the components of the gain:

	Image Sensors	SVTC	NSE	Total
	(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 costs	(845)	(640)	(25)	(1,510)
Gain on divestitures	$ 222	$ 10,560	$ 7,176	$ 17,958

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 a part of a reporting unit that does not have any goodwill balance.

In connection with the divestitures in fiscal 2007, approximately 110 employees were either transferred to the buyers or terminated by us.

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

	Consumer and Computation Division	Data Communications Division	Memory and Imaging Division	Total
		(In thousands)		
Balance at December 30, 2007	$ 129,740	$ 138,436	$ 81,613	$ 349,789
Acquisition of Simtek	—	—	33,267	33,267
Other adjustment	—	—	37	37
Impairment of goodwill	(97,904)	(138,436)	(114,917)	(351,257)
Balance at December 28, 2008	31,836	—	—	31,836
Balance at January 3, 2010	$ 31,836	$ —	$ —	$ 31,836

For fiscal 2008, changes to goodwill included the addition of $33.3 million related to the acquisition of Simtek (see Note 4) and an impairment of $351.3 million.

Impairment of Goodwill:

We apply a fair value based impairment test to the net book value of goodwill on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis. The analysis of potential impairment of goodwill requires a two-step process. The first step is a comparison of the estimation of fair value of all reporting units to the carrying value of the calculated net assets. If step one indicates that impairment potentially exists, a second step is performed to measure the amount of impairment, if any. Goodwill impairment exists when the implied fair value of goodwill is less than its carrying value.

In the fourth quarter of fiscal 2009, we performed the annual assessment of the carrying value of our goodwill and no impairment charge was recorded.

In the fourth quarter of fiscal 2008, we performed the annual assessment of the carrying value of our goodwill. The decline in the estimated fair value of the reporting units is a result of significant negative industry and economic trends affecting our current operations and expected future growth as well as the general decline of industry valuations impacting our valuation. We estimate the fair value of its reporting units noting that in all but one instance, the estimated fair value of the reporting units exceeds their underlying net asset value. We performed step two of the analysis and recorded a $351.3 million impairment charge.

We tested our goodwill on the reporting unit level. The following table indicates the number of reporting units tested for goodwill and the amount of goodwill impairment recorded in each reportable segment:

Reportable Segments	Number of Reporting Units	Goodwill Impairment
Consumer and Computation Division	Three	$ 97.9 million
Data Communications Division	Two	$ 138.4 million
Memory and Imaging Division	Two	$ 115.0 million

Management determined the fair value of the reporting units using a combination of the income approach, which is based on a discounted cash flow analysis of each reporting unit, and the market approach, which is based on a competitor multiple assessment, if available. The following table indicates the weight given to each of the approaches:

Reportable Segments	Income Approach	Market Approach
Consumer and Computation Division	75%	25%
Data Communications Division	75%	25%
Memory and Imaging Division	90% -100%	0% - 10%

The following table summarizes the assumptions used in the income approach:

Reportable Segments	Five-Year Annual Growth Rates	Terminal Values	Discount Rates
Consumer and Computation Division	5%	2%	24% - 25%
Data Communications Division	5%	2%	25% - 26%
Memory and Imaging Division	5%	2%	25% - 26%

The assumptions supporting the estimated future cash flows, including the discount rates and estimated terminal values, reflect management's best estimates. The discount rates were based upon our weighted average cost of capital as adjusted for the risks associated with our operations.

Intangible Assets

The following tables present details of our total intangible assets:

As of January 3, 2010	Gross	Accumulated Amortization	Net
		(In thousands)	
Purchase technology	$ 100,134	$ (88,766)	$ 11,368
Patents, tradenames, customer relationships and backlog	22,009	(21,937)	72
Other	4,297	(4,190)	107
Total acquisition-related intangible assets	126,440	(114,893)	11,547
Non-acquisition related intangible assets	8,713	(5,128)	3,585
Total intangible assets	$ 135,153	$ (120,021)	$ 15,132

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

As of January 3, 2010, the estimated future amortization expense of intangible assets was as follows:

(In thousands)	
2010	$ 4,149
2011	3,974
2012	3,574
2013	2,963
2014 and thereafter	472
Total future amortization expense	$ 15,132

Prior to performing our assessment on the carrying value of goodwill, we reviewed the carrying value of our long-lived assets in accordance with the accounting guidance. No impairment of long-lived assets was recorded as the gross, undiscounted cash flows, expected to be generated by the underlying assets (measured at the lowest level of identifiable cash flows) exceeded the carrying value of those assets.

NOTE 7. FAIR VALUE MEASUREMENTS

Assets/Liabilities Measured at Fair Value on a Recurring Basis

The following table presents our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of January 3, 2010:

	Level 1	Level 2	Level 3	Total
		(In thousands)		
Financial Assets				
Investments:				
Commercial paper	$ —	$ —	$ 615	$ 615
Money market funds	122,111	—	—	122,111
U.S. treasuries	6,070	—	—	6,070
Corporate notes / bonds	—	20,896	—	20,896
Federal agency	—	5,012	—	5,012
Auction rate securities	—	—	32,740	32,740
Marketable equity securities	5,053	—	—	5,053
Employee deferred compensation plan	25,664	—	—	25,664
Derivative instruments:				
Foreign currency forward contracts	—	8	—	8
Total financial assets	$158,898	$25,916	$33,355	$218,169
Financial Liabilities				
Employee deferred compensation plan	$ 25,071	$ —	$ —	$ 25,071
Total financial liabilities	$ 25,071	$ —	$ —	$ 25,071

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

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

Valuation Techniques:

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

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

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

Auction Rate Securities:

As of January 3, 2010, all of our auction rate securities are classified as Level 3 financial instruments. Auction rate securities are investments with contractual maturities generally between 20 and 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans or collateralized debt obligations with interest rates resetting every seven to 49 days through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are primarily backed by student loans and are over-collateralized, insured and guaranteed by the U.S. Federal Department of Education.

As of January 3, 2010, 95% of our auction rate securities held by us were rated as either AAA or Aaa by the major independent rating agencies and approximately 5% of the student loan auction rate securities have been downgraded from AAA or Aaa to Baa3. The downgrade event was due to the higher rates the issuer is paying out versus the lending rates, which is preventing the issuer from building excess spread as required under the prospectus.

As of January 3, 2010, all of our auction rate securities have experienced failed auctions due to sell orders exceeding buy orders. These failures are not believed to be a credit issue with the underlying investments, but rather caused by a lack of liquidity. Under the contractual terms, the issuer is obligated to pay penalty rates should an auction fail. The funds associated with failed auctions are not expected to be accessible until one of the following occurs: a successful auction occurs, the issuer redeems the issue, a buyer is found outside of the auction process or the underlying securities have matured. Given these circumstances and the lack of liquidity, we have classified our auction rate securities totaling $32.7 million as long-term investments.

During fiscal 2009, we performed analyses to assess the fair value of the auction rate securities. In the absence of a liquid market to value these securities, we prepared a valuation model based on discounted cash flows. The assumptions used at January 3, 2010 were as follows:

- 7 years to liquidity;
- continued receipt of contractual interest which provides a premium spread for failed auctions; and
- discount rates of 2.31%—5.78%, which incorporates a spread for both credit and liquidity risk.

Based on these assumptions, we estimated that the auction rate securities would be valued at approximately 90% of their stated par value as of January 3, 2010, representing a decline in value of approximately $3.7 million. As a result of our adoption of this new guidance in the second quarter of 2009, we reclassified the non-credit portion of the previously recognized other-than-temporary impairment losses related to our auction rate securities of $5.3 million from accumulated deficit to accumulated other comprehensive income (loss).

Commercial Paper:

As of January 3, 2010, we have classified one commercial paper investment totaling $0.6 million as a Level 3 financial asset. The investment was issued through a structured investment vehicle that was impaired as the issuer was unable to raise sufficient funding to cover maturing obligations. Accordingly, management determined that the security had suffered other-than-temporary impairment and recorded a $0.2 million charge. The amount of the write-down was determined by comparing the carrying value of the investment to the valuation of the underlying assets of the fund.

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

	Auction Rate Securities	Commercial Paper	Total
		(In thousands)	
Balance as of December 30, 2007	$ —	$ 1,065	$ 1,065
Transfer from Level 2	38,750	—	38,750
Impairment loss	(3,860)	(253)	(4,113)
Balance as of December 28, 2008	$ 34,890	$ 812	$ 35,702
Unrealized gain	150	—	150
Impairment loss	—	(197)	(197)
Called at par	(2,300)	—	(2,300)
Balance as of January 3, 2010	$ 32,740	$ 615	$ 33,355

NOTE 8. INVESTMENTS

Available-For-Sale Securities and Other Investments

The following tables summarize our available-for-sale securities and other investments:

As of January 3, 2010	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
Cash equivalents:				
Money market funds	$ 122,111	$ —	$ —	$ 122,111
Total cash equivalents	122,111	—	—	122,111
Short-term investments:				
Certificate of deposit	20,069	—	—	20,069
U.S. treasuries	6,013	57	—	6,070
Corporate notes/bonds	20,813	83		20,896
Marketable equity securities	1,053	2,983		4,036
Federal agency	4,988	26	(2)	5,012
Total short-term investments	52,936	3,149	(2)	56,083
Long-term investments:				
Auction rate securities	36,450	—	(3,710)	32,740
Commercial paper	615	—	—	615
Marketable equity securities	1,187	—	(170)	1,017
Total long-term investments	38,252	—	(3,880)	34,372
Total available-for-sale securities and other investments	$ 213,299	$ 3,149	$ (3,882)	$ 212,566

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

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	
As of January 3, 2010	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
			(In thousands)			
Auction rate securities	$ —	$ —	$ 32,740	$ (3,710)	$ 32,740	$ (3,710)
Federal agency	2,003	(2)	—	—	2,003	(2)
Marketable equity securities	—	—	1,017	(170)	1,017	(170)
Total	$ 2,003	$ (2)	$ 33,757	$ (3,880)	$ 35,760	$ (3,882)

	Less Than Twelve Months		Greater Than Twelve Months		Total	
As of December 28, 2008	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
			(In thousands)			
Corporate notes/bonds	$ 10,033	$ (121)	$ —	$ —	$ 10,033	$ (121)
Marketable equity securities	561	(626)	—	—	561	(626)
Total	$ 10,594	$ (747)	$ —	$ —	$ 10,594	$ (747)

Currently, the available-for-sale debt investments that we hold are all high investment grade. The unrealized losses on our investments are due primarily to changes in interest rates and market and credit conditions of the underlying securities. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we did not consider these investments to be other-than-temporarily impaired as of January 3, 2010 and December 28, 2009.

For individual marketable equity securities with unrealized losses, we evaluated the near-term prospects in relation to the severity and duration of the impairment. Based on that evaluation and our ability and intent to hold these investments for a reasonable period of time, we did not consider these investments to be other-than-temporarily impaired as of January 3, 2010 and December 28, 2009.

As of January 3, 2010, contractual maturities of our available-for-sale non-equity investments and certificates of deposit were as follows:

	Cost	Fair Value
	(In thousands)	
Maturing within one year	$ 142,180	$ 142,180
Maturing in one to three years	31,814	31,978
Maturing in more than three years	37,065	33,356
Total	$ 211,059	$ 207,514

Realized gains from sales of available-for-sale and non equity investments were $0.8 million in fiscal 2009. Realized gains and losses from sales of available-for sale and non-equity investments were immaterial in fiscal 2008.

Proceeds from sales or maturities of available-for-sale investments were $24.4 million, $362.2 million and $202.5 million for fiscal 2009, 2008 and 2007, respectively.

Investments in Equity Securities

The following table summarizes our equity investments:

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Short-term investments:		
Marketable equity securities	$ 4,036	$ 3,891
Long-term investments:		
Marketable equity securities	1,017	561
Non-marketable equity securities	408	1,227
Total long-term investments	1,425	1,788
Total equity investments	$ 5,461	$ 5,679

Sale of Equity Securities:

During fiscal 2007, we sold our equity investments in two publicly traded companies for $4.5 million and recognized total gains of $0.9 million.

Impairment of Investments

We review our investments periodically for impairment and recognize an impairment loss when the carrying value of an investment exceeds its fair value and the decline in value is considered other-than-temporary. The following table summarizes the impairment loss recorded in the Consolidated Statements of Operations:

	Year Ended		
	January 3, 2010	December 30, 2008	December 31, 2007
	(In thousands, except per-share amounts)		
Debt securities:			
Commercial paper	$ 197	$ 253	$ 435
Auction rate securities	1,393	3,860	—
Corporate bonds	140	562	—
Equity securities:			
Marketable equity securities	—	86	601
Non-marketable equity securities	819	8,594	867
Total impairment loss	$ 2,549	$ 13,355	$ 1,903

NOTE 9. EMPLOYEE STOCK PLANS AND STOCK-BASED COMPENSATION

We currently have the following employee stock plans:

1999 Stock Option Plan ("1999 Plan"):

Under the terms of the 1999 Plan, which was a non-shareholder approved plan, stock options could have been granted to qualified employees, including those of acquired companies and consultants of the Company or its subsidiaries, but stock options could not be granted to executive officers or directors. As of January 3, 2010, there are no shares available for grant under the 1999 Plan as the plan expired in March 2009. All unissued grants became unavailable for future grant.

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

In fiscal 1994, we adopted, and in fiscal 2004 and 2008 amended, the 1994 Stock Option Plan, which is a shareholder-approved plan. Under the terms of the 1994 Amended Plan, stock options, restricted stock units, restricted stock awards and stock appreciation rights may be granted to qualified employees, consultants, officers and directors of Cypress or our subsidiaries. Awards become exercisable over a vesting period as determined by the Board and expire over terms not exceeding ten years from the date of grant for awards granted prior to May 2008, and eight years from the date of grant for awards granted after May 2008. As of January 3, 2010, approximately 14.8 million shares of stock options or 7.9 million shares of restricted stock units and restricted stock awards were available for grant under the 1994 Amended Plan. The 1994 Amended Plan will expire in April 2014.

Employee Stock Purchase Plan ("ESPP"):

Our ESPP allows eligible employees to purchase shares of our 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 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. As of January 3, 2010, approximately 6.1 million shares were available for future issuance under the ESPP. The ESPP will expire in May 2013.

Modification of Outstanding Employee Equity Awards

On August 1, 2008, the Board approved certain adjustments to the 1999 Plan and 1994 Amended Plan (together, the "Plans") and outstanding employee equity awards in anticipation of the Spin-Off (see Note 3). These adjustments were consistent with and similar to the provisions in the Plans providing for automatic adjustment of service provider equity awards and share pools pursuant to a Cypress stock split or similar change in capitalization effected without receipt of consideration by us. Specifically, the Board approved amendments to make proportionate adjustments, effective immediately following the Spin-Off, to: (a) the number of authorized but unissued shares reserved for issuance under the Plans, (b) the numerical provisions under the Plans' annual grant limits and automatic option grant sections, including automatic grants to Board members, and (c) outstanding employee equity awards, including stock options, restricted stock units and restricted stock awards, under the Plans to preserve the intrinsic value of the awards before and after the Spin-Off. The Board further approved the amendment of outstanding options under the Plans to permit, subject to timing limitations and management discretion, both net exercise (a portion of the shares subject to options surrendered as payment of the aggregate exercise price) and early exercise (exercise of unvested shares subject to a stock restriction agreement).

In addition, the Board approved certain adjustments with respect to our ESPP to offset the decrease in our common stock price resulting from the Spin-Off. These changes included a proportionate adjustment in the offering date price per share of our common stock and maximum number of shares participants may purchase under the ESPP.

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

The ESPP offering date price for the then current offering period was divided by the Conversion Ratio, rounded up to the nearest whole cent and the maximum number of shares participants may purchase under the ESPP was multiplied by the Conversion Ratio, rounded down to the nearest whole share.

The modification of the outstanding employee equity awards and the ESPP on August 1, 2008 resulted in additional non-cash stock-based compensation. The amount was measured based upon the difference between the fair value of the awards immediately before and after the modification. Of the total additional non-cash stock-based compensation $59.4 million and $61.9 million, net of forfeitures was recognized in fiscal 2009 and fiscal 2008, respectively. The remaining $27.8 million will be recognized over the remaining vesting periods on an accelerated basis less forfeitures.

Stock-Based Compensation

The number of shares and price per share for fiscal 2007 have not been adjusted to reflect the Conversion Ratio or the Spin-Off.

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Cost of revenues	$ 40,798	$ 27,950	$ 13,123
Research and development	37,537	39,089	15,870
Selling, general and administrative	63,477	55,306	32,399
Total stock-based compensation expense	$ 141,812	$ 122,345	$ 61,392

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. The accounting guidance 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 cash proceeds from the issuance of shares under the employee stock plans were $101.6 million, $55.6 million and $210.2 million for fiscal 2009, 2008 and 2007, respectively. We recognized an income tax benefit from stock option exercises of $9.1 million for fiscal 2008. No income tax benefit was realized from stock option exercises for fiscal 2009 and 2007. As of January 3, 2010 and December 28, 2008, stock-based compensation capitalized in inventories totaled $5.7 million and $11.0 million, respectively.

The following tables summarize the stock-based compensation expense by type of awards:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Stock options	$ 56,386	$ 75,513	$ 31,573
Restricted stock units and restricted stock awards	74,842	38,252	25,700
ESPP	10,584	8,580	4,119
Total stock-based compensation expense	$ 141,812	$ 122,345	$ 61,392

The following table summarizes the unrecognized stock-based compensation balance by type of awards as of January 3, 2010:

(In thousands)		Weighted-Average Amortization Period
		(In years)
Stock options	$ 46,670	1.97
Restricted stock units and restricted stock awards	102,536	3.76
ESPP	2,078	0.47
Total unrecognized stock-based compensation balance	$151,284	3.16

Valuation Assumptions

We estimate the fair value of our stock-based equity awards using the Black-Scholes valuation model. Assumptions used in the Black-Scholes valuation model were as follows:

	Year Ended		
	January 3, 2010	December 30, 2008	December 31, 2007
Stock Option Plans:			
Expected life	2.4-7.4 years	0.5-9.9 years	2.1-8.4 years
Volatility	50.09%-60.75%	43.5%-74.35%	32.1%-53.2%
Risk-free interest rate	0.7%-3.2%	0.68%-4.22%	3.2%-5.1%
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	52.6%-85.8%	43.7%-57.8%	31.5%-35.6%
Risk-free interest rate	0.2%-0.7%	1.2%-2.3%	4.6%-5.0%
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.

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

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

Dividend yield: Since we did not pay and do not expect to pay dividends, the expected dividend yield is zero.

Employee Equity Award Activities

Stock Options:

The following table summarizes our stock option activities:

	Year Ended					
	January 3, 2010		December 28, 2008		December 30, 2007	
	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	70,273	$ 4.43	81,011	$ 4.08	32,152	$ 15.50
Granted	6,444	$ 6.68	8,113	$ 5.85	2,557	$ 25.29
Exercised	(19,433)	$ 4.21	(14,852)	$ 3.22	(12,962)	$ 15.15
Forfeited or expired	(4,873)	$ 5.35	(3,999)	$ 4.70	(2,085)	$ 17.60
Options outstanding, end of year	52,411	$ 4.70	70,273	$ 4.43	19,662	$ 16.80
Options exercisable, end of year	33,895	$ 4.18	42,121	$ 4.13	10,570	$ 15.78
Options outstanding, end of year adjusted for conversion	52,411		70,273		81,011	

The weighted-average grant-date fair value was $2.97 per share for options granted during fiscal 2009, $2.55 per share for options granted during fiscal 2008 and $8.90 per share for options granted during fiscal 2007.

The total intrinsic value of options exercised was $88.8 million for fiscal 2009, $47.9 million for fiscal 2008 and $156.8 million for fiscal 2007.

Total fair value of options vested was $25.2 million for fiscal 2009, $27.4 million for fiscal 2008 and $32.2 million for fiscal 2007.

Information regarding stock options outstanding as of January 3, 2010 was as follows:

	Options Outstanding				Options Exercisable			
Range of Exercise Price	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)
$0.35-$2.77	6,426	4.32	$ 2.16	$ 53,995	5,746	3.90	$ 2.10	$ 48,624
$2.77-$3.53	9,511	5.40	$ 3.45	$ 67,594	7,773	5.36	$ 3.45	$ 55,246
$3.54-$4.06	6,383	4.96	$ 3.89	$ 42,543	4,402	4.41	$ 3.91	$ 29,268
$4.09-$4.76	7,761	4.19	$ 4.41	$ 47,708	6,253	3.64	$ 4.41	$ 38,458
$4.79-$5.55	5,302	5.42	$ 5.18	$ 28,534	3,669	4.30	$ 5.17	$ 19,792
$5.59-$6.16	5,518	4.35	$ 5.88	$ 25,813	3,289	1.59	$ 5.71	$ 15,938
$6.17-$6.22	5,255	8.72	$ 6.18	$ 23,027	709	8.78	$ 6.18	$ 3,106
$6.35-$9.38	5,496	7.48	$ 7.35	$ 17,639	1,885	6.65	$ 7.48	$ 5,814
$9.62-$12.33	759	6.08	$ 10.38	$ 216	168	1.06	$ 10.81	$ 26
$13.15-$13.15	—	0.34	$ 13.15	—	—	0.34	$ 13.15	—
	52,411	5.49	$ 4.70	$ 307,069	33,894	4.31	$ 4.18	$ 216,272

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $10.56 at the end of the fiscal 2009, which would have been received by the option holders had all option holders exercised their options as of that date and do not include substantial tax payments. The total number of in-the-money options exercisable was 33.8 million shares as of January 3, 2010.

As of January 3, 2010, stock options vested and expected to vest totaled approximately 49.9 million shares, with a weighted-average remaining contractual life of 5.36 years and a weighted-average exercise price of $4.63 per share. The aggregate intrinsic value was approximately $295.9 million.

Restricted Stock Units and Restricted Stock Awards:

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

	Year Ended					
	January 3, 2010		December 28, 2008		December 30, 2007	
	Shares	Weighted-Average Fair Value per Share	Shares	Weighted-Average Fair Value per Share	Shares	Weighted-Average Fair Value per Share
	(In thousands, except per-share amounts)					
Non-vested, beginning of year	28,745	$ 5.78	27,819	$ 5.43	1,007	$ 16.23
Granted	1,970	$ 7.86	8,008	$ 6.25	6,156	$ 23.45
Released	(7,510)	$ 5.07	(5,993)	$ 5.07	(222)	$ 27.62
Forfeited	(5,472)	$ 3.73	(1,089)	$ 4.29	(189)	$ 18.26
Non-vested, end of year	17,733	$ 5.51	28,745	$ 5.78	6,752	$ 22.38
Non-vested, end of year adjusted for conversion	17,733		28,745		27,819	

The balance as of January 3, 2010 included approximately 10.7 million performance-based restricted stock units and restricted stock awards granted under the 1994 Amended Plan. The awards were issued to certain senior-level employees of Cypress in fiscal 2007 and 2008 and can be earned ratably over a remaining period of two to three years subject to the achievement of certain performance milestones. If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods. Early in fiscal 2008, the Compensation Committee of the Board ("the Committee") established the milestones for approximately 4.7 million of the outstanding performance-based awards. These performance-based milestones include the achievement of certain performance results of our common stock appreciation target against the Philadelphia Semiconductor Sector Index ("SOXX"), non-GAAP semiconductor gross margin and operating income milestones and non-GAAP semiconductor operating income performance goals versus a pre-determined peer group.

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

During the first quarter of fiscal 2009, the Committee established the milestones for the first half of fiscal 2009 for approximately 2.3 million of the outstanding performance-based awards. These performance-based milestones include the achievement of certain performance results of our common stock appreciation target against the SOXX, certain levels of non-GAAP free cash flows and certain levels of non-GAAP operating expense. These awards are earned upon the Committee's certification that the specified market and/or performance milestones have been achieved.

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

On August 6, 2009, the Committee approved the performance milestones for the first half of 2009 which resulted in the release of 2.1 million shares of performance-based restricted stock units and restricted stock awards, prior to required tax payments. In addition on August 6, 2009, the Committee set three performance milestones required for the second half of fiscal 2009 for approximately 2.3 million of the outstanding performance-based awards currently set to be achieved by the end of the fourth fiscal quarter of 2009. These performance-based milestones include the achievement of certain performance results of our common stock appreciation target against the SOXX, certain levels of non-GAAP gross margin percentage and certain levels of non-GAAP operating income for the performance period. These milestones are adjusted for any non-planned, one-time and unusual transactions as designated by the Committee. These awards are earned upon the Committee's certification that the specified market and/or performance milestones have been achieved. If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods.

The fair value of the shares with the market-condition milestone was determined using a Monte Carlo valuation methodology with the following weighted-average assumptions: volatility of our common stock of 43.5%; volatility of the SOXX of 40.4%; correlation coefficient of 0.71; and risk-free interest rate of 0.2%. The fair value of the shares with the performance-related milestones was equivalent to the grant-date fair value of our common stock.

ESPP:

During fiscal 2009, 2008 and 2007, we issued 5.2 million, 0.4 million and 1.1 million shares under our ESPP with weighted-average prices of $12.79, $19.93 and $12.88 per share and grant-date fair value of $3.84, $9.34 and $5.07 per share, respectively.

NOTE 10. BALANCE SHEET COMPONENTS

Accounts Receivable, Net

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Accounts receivable, gross	$ 91,468	$ 96,027
Allowances for doubtful accounts receivable and sales returns	(4,509)	(4,084)
Total accounts receivable, net	$ 86,959	$ 91,943

Inventories

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Raw materials	$ 11,551	$ 9,962
Work-in-process	56,947	76,049
Finished goods	22,700	28,851
Total inventories	$ 91,198	$ 114,862

Other Current Assets

	As of January 3, 2010	As of December 28, 2008
	(In thousands)	
Deferred tax assets	$ 28	$ 1,233
Receivable from SunPower	2,255	18,697
Prepaid expenses	22,725	24,093
Assets held for sale (see Note 11)	7,690	8,536
Other current assets	8,208	8,196
Total other current assets	$ 40,906	$ 60,755

Property, Plant and Equipment, Net

	As of January 3, 2010	As of December 28, 2008
	(In thousands)	
Land	$ 29,048	$ 29,405
Equipment	946,817	1,008,187
Buildings and leasehold improvements	204,107	207,294
Furniture and fixtures	10,820	10,643
Total property, plant and equipment, gross	1,190,792	1,255,529
Less: accumulated depreciation and amortization	(918,172)	(958,740)
Total property, plant and equipment, net	$ 272,620	$ 296,789

Other Long-term Assets

	As of January 3, 2010	As of December 28, 2008
	(In thousands)	
Employee deferred compensation plan (see Note 17)	$ 25,664	$ 20,246
Investments:		
Debt securities (see Note 7)	33,356	35,701
Equity securities (see Note 7)	1,425	1,788
Other assets	13,770	18,342
Total other assets	$ 74,215	$ 76,077

Other Current Liabilities

	As of January 3, 2010	As of December 28, 2008
	(In thousands)	
Employee deferred compensation plan (see Note 17)	$ 25,071	$ 20,478
Accrued sales representative commissions	1,134	2,686
Accrued royalties	129	4,385
Restructuring accrual	3,740	10,095
Other current liabilities	26,549	25,951
Total other current liabilities	$ 56,623	$ 63,595

Deferred Income Taxes and Other Tax Liabilities

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Deferred income taxes	$ (42)	$ 540
Non-current tax liabilities	39,314	22,046
Total deferred income taxes and other tax liabilities	$ 39,272	$ 22,586

NOTE 11. RESTRUCTURING

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Fiscal 2008/9 Restructuring Plan	$ 15,028	$ 11,783	$ —
Fiscal 2007 Restructuring Plan	214	9,860	583
Total restructuring charges	$ 15,242	$ 21,643	$ 583

Fiscal 2008/9 Restructuring Plan

During the third quarter of fiscal 2008, we initiated a restructuring plan as part of a companywide cost saving initiative aimed to reduce operating costs in response to the economic downturn ("Fiscal 2008/9 Restructuring Plan"). At January 3, 2010, we recorded a total of $26.8 million under the Fiscal 2008/9 Restructuring Plan, of which $23.1 million was related to personnel costs and $3.7 million was related to other exit costs. The determination of when we accrue for severance costs, and what guidance applies depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement.

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Initial provision	$ 11,611
Non-cash	(162)
Cash payments	(4,075)
Balance as of December 28, 2008	7,374
Provision	11,516
Non-cash	(1,352)
Cash payments	(14,271)
Balance as of January 3, 2010	$ 3,267

We expect to eliminate approximately 835 positions and recorded total provisions of $23.1 million related to severance and benefits. The following table summarizes certain information related to the positions:

Locations	Number of Employees
Manufacturing facility in the Philippines	250
Manufacturing facility in Minnesota	160
Corporate and other	425
Total	835

As of year end about 76 employees remained with us and the majority of these remaining employee terminations are to be completed by the end of fiscal 2010.

Fiscal 2007 Restructuring Plan

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

To date, we recorded total restructuring charges of $10.7 million related to the Fiscal 2007 Restructuring Plan, of which $0.2 million was recorded in fiscal 2009, $9.9 million was recorded in fiscal 2008 and $0.6 million was recorded in fiscal 2007. Of the total restructuring charges, $8.0 million was related to personnel costs and $2.7 million was related to property, plant and equipment and other exit costs.

Personnel Costs:

Restructuring activities related to personnel costs are summarized as follows:

(In thousands)	
Initial provision	$ 355
Cash payments	—
Balance as of December 30, 2007	355
Additional provision	7,029
Cash payments	(4,663)
Balance as of December 28, 2008	2,721
Additional provision	627
Cash payments	(3,348)
Balance as of January 3, 2010	$ —

We completed the termination of the remaining employees in the first quarter of fiscal 2009, all balances related to benefits were paid by the third quarter of fiscal 2009.

Property, Plant and Equipment:

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

The following table summarizes the net book value of the remaining restructured assets that were classified as held for sale and included in "Other current assets" in the Consolidated Balance Sheet as of January 3, 2010:

(In thousands)	
Land	$ 994
Equipment	266
Buildings and leasehold improvements	6,430
Total property, plant and equipment, net	$7,690

We had expected to complete the disposal of the restructured assets by the fourth quarter of fiscal 2009, however, due to the downturn and uncertainty in the commercial real estate market we were unable to secure a buyer for the Texas facility. In response, we have revised the asking price for the property and expect to sell the facility in the next twelve months.

NOTE 12. FOREIGN CURRENCY DERIVATIVES

We operate and sell products in various global markets and purchase capital equipment using the U.S. dollar and foreign currencies. As a result, we are exposed to risks associated with changes in foreign currency exchange rates. We may use various hedge instruments from time to time to manage the exposures associated with purchases of foreign sourced equipment, net asset or liability positions of our subsidiaries and forecasted revenues and expenses. We do not enter into foreign currency derivative financial instruments for speculative or trading purposes. The counterparties to these hedging transactions are creditworthy multinational banks and the risk of counterparty nonperformance associated with these contracts is not considered to be material as of January 3, 2010.

As of January 3, 2010 and December 28, 2008, our hedge instruments consisted primarily of foreign currency forward contracts. We estimate the fair value of our forward contracts based on spot and forward rates from published sources.

We record hedges of certain foreign currency denominated monetary assets and liabilities at fair value at the end of each reporting period with the related gains or losses recorded in “Other income (expense), net” in the Consolidated Statements of Operations. The gains or losses on these contracts are substantially offset by transaction gains or losses on the underlying balances being hedged. As of January 3, 2010 and December 28, 2008, we had outstanding forward contracts with an aggregate notional value of $1.0 million and $1.4 million, respectively, to hedge the risks associated with foreign currency denominated assets and liabilities.

NOTE 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) were as follows:

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Accumulated net unrealized gains on available-for-sale investments	$ 4,415	$ 2,427
Accumulated net unrealized gains on derivatives	115	106
Impairment loss on auction rate securities	(5,253)	—
Total accumulated other comprehensive income (loss)	$ (723)	$ 2,533

NOTE 14. OTHER INCOME (EXPENSE), NET

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Amortization of debt issuance costs	$ (114)	$ (3,051)	$ (3,530)
Write-off of debt issuance costs (see Note 15)	—	(4,800)	(4,226)
Gain on investments (see Note 7)	822	—	929
Gain (loss) on debt extinguishment	—	2,193	(2,927)
Impairment of investments (see Note 8)	(2,549)	(13,355)	(1,903)
Changes in fair value of investments under the deferred compensation plan (see Note 17)	5,150	(10,643)	1,138
Foreign currency exchange gain (loss), net	(22)	2,925	(5,495)
Other	487	(335)	617
Total other income (expense), net	$ 3,774	$ (27,066)	$ (15,397)

NOTE 15. DEBT AND EQUITY TRANSACTIONS

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

In March 2007, we entered into the following transactions: (1) the issuance of $600.0 million in principal amount of the 1.00% Notes, (2) a convertible note hedge and warrant transactions with respect to our common stock, and (3) an accelerated share repurchase program.

1.00% Notes:

We issued $600.0 million in principal amount of the 1.00% Notes with interest payable semiannually in arrears in cash on March 15 and September 15 of each year, beginning on September 15, 2007. The 1.00% Notes matured on September 15, 2009. The 1.00% Notes were initially convertible, subject to certain conditions, into cash up to the lesser of the principal amount or the conversion value. If the conversion value was greater than $1,000, then the excess conversion value was convertible into cash, common stock or a combination of cash and common stock, at our election. The initial effective conversion price of the 1.00% Notes was $23.90 per share, which represented a premium of 26.5% to the closing price of our common stock on the date of issuance. Holders who converted their 1.00% Notes in connection with certain types of corporate transactions constituting a fundamental change were 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 could require us to purchase all or a portion of their 1.00% Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date. In connection with the offering of the 1.00% Notes, we incurred approximately $12.9 million of debt issuance costs.

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

As of December 28, 2008, the carrying value of the 1.00% Notes was $27.0 million and the fair value was $28.0 million. The value of the 1.00% Notes was determined based on quoted market prices.

Tender Offer:

In September 2008, we completed a tender offer to purchase for cash up to \$531.3 million in aggregate principal amount of the 1.00% Notes. Based on the final results of the tender offer, \$582.4 million aggregate principal amount of the 1.00% Notes were tendered. We accepted \$531.3 million of the tendered 1.00% Notes at a purchase price of \$1,321.22 per \$1,000 principal amount, plus accrued and unpaid interest. Because more than \$531.3 million principal amount was tendered, we purchased the 1.00% Notes on a pro-rata basis. The pro-ration was based on the ratio of the principal amount of the 1.00% Notes tendered by a holder to the total principal amount of the 1.00% Notes tendered by all the holders. As a result of the tender offer, we paid \$701.9 million in cash.

Open Market Purchase:

In November 2008, we made open market purchases of approximately \$12.1 million of the outstanding 1.00% Notes at a slight discount to par, plus accrued interest.

Fundamental Change:

Pursuant to the applicable Indenture, the Spin-Off of SunPower (see Note 3) constituted both a fundamental change and a make-whole fundamental change to the 1.00% Notes. Consequently, the remaining holders were permitted to require us to purchase their 1.00% Notes on December 17, 2008, the fundamental change purchase date, in cash at a price equal to \$1,000 principal amount of the Notes, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. On December 17, 2008, we repurchased \$28.7 million of the 1.00% Notes.

Debt Maturity:

On September 15, 2009, our outstanding 1.00% Notes of approximately \$28.0 million in principal matured and were settled. Holders received cash for the principal amount of the 1.00% Notes and the entire premium. The final conversion price per 1.00% Notes as calculated under the Indenture, was \$1,841.76 including principal and premium. Consistent with the terms of the Indenture, on September 15, 2009, we paid approximately \$51.6 million for the principal amount of 1.00% Notes, premium and accrued and unpaid interest.

Convertible Note Hedge and Warrants:

In connection with the issuance of the 1.00% Notes, we had a convertible note hedge transaction with respect to our common stock with two counterparties at the equivalent amount of common stock that would be issuable upon conversion of the 1.00% Notes. The objective of this hedge was to reduce the potential dilution upon conversion of the 1.00% Notes in the event that the market value per share of our common stock at the time of exercise is greater than the conversion price of the 1.00% Notes. In addition, we had a warrant transaction in which we sold to the same counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes. On September 15, 2009, the hedge matured and as a result we received \$23.6 million from the counterparties. In addition, we repurchased and settled the outstanding warrants, issued in March 2007, through a cash payment of approximately \$20.3 million to the counterparties holding the warrants.

During fiscal 2008, we terminated a portion of the convertible note hedge and warrant agreements with respect to the amount of the 1.00% Notes that were purchased by us in transactions described above. As a result of the termination, we received total net cash proceeds of \$7.8 million from the option counterparties, which was recorded in “Additional paid-in capital” in the Consolidated Balance Sheet in fiscal 2008. The portion of the convertible note hedge and the warrant agreements associated with the outstanding principal amount of the 1.00% Notes remained outstanding as of December 28, 2008.

Accelerated Share Repurchase Program:

In connection with the issuance of the 1.00% Notes, we had entered into an accelerated share repurchase program. Pursuant to the program, we repurchased shares of our common stock on the open market based on the volume weighted-average price of our 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 1.00% Notes. We 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% Convertible Subordinated Notes ("1.25% Notes")

During fiscal 2003, we issued $600.0 million in principal amount of the 1.25% Notes with interest payable on June 15 and December 15. The 1.25% Notes were due in June 2008. The 1.25% Notes, which could be converted at anytime by the holders prior to maturity, were convertible into 55.172 shares of our common stock per $1,000 principal amount, plus a cash payment of $300. The 1.25% Notes were callable by us at anytime.

In February 2007, we called for redemption of the outstanding 1.25% Notes. Holders had the option to convert the 1.25% Notes into 55.172 shares of our common stock per $1,000 principal amount plus $300 in cash. Alternatively, holders had the option to have their 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, we issued approximately 33.0 million shares of our common stock and paid approximately $179.7 million in cash to the holders in fiscal 2007. In addition, we wrote off approximately $4.2 million of related unamortized debt issuance costs in fiscal 2007.

Stock Repurchase Program

In fiscal 2007, the Board authorized a stock repurchase program of up to $300.0 million. In fiscal 2008, the Board approved an additional $300.0 million, bringing the total amount that may have been used for stock purchases to $600.0 million under the stock repurchase program. The stock repurchase program was in addition to the accelerated share repurchase program associated with the 1.00% Notes.

During fiscal 2008, we used $375.6 million in cash to repurchase a total of approximately 37.1 million shares at an average share price of $10.13. Approximately 12.6 million shares of this repurchase occurred prior to the Spin-Off at an average stock price of $21.95. The remaining 24.5 million shares were purchased after the Spin-Off at an average price of $4.03.

During fiscal 2009, we used $46.3 million to repurchase approximately 5.8 million shares at an average share price of $8.00. In light of certain tax constraints placed on us in connection with the tax-free spin of SunPower, we had no current intentions of repurchasing additional stock under the existing program. Accordingly, on October 28, 2009, the Audit Committee of the Board voted to rescind the remaining $178.1 million available under the program for additional repurchases.

Equity Option Contracts

As of December 31, 2006, we had outstanding a series of equity options on our 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 our stock price was above the threshold price of $21.00 per share, we would receive a settlement value totaling $30.3 million in cash. If our stock price was below the threshold price of $21.00 per share, we would receive 1.4 million shares of our common stock.

During fiscal 2007, the contracts expired and we did not renew them. We received 1.4 million shares of our common stock, which was accounted for as treasury stock.

On October 28, 2009 the Audit Committee also approved a yield enhancement strategy intended to improve the yield on our available non-strategic cash. As part of this program, the Audit Committee authorized us to enter into short-term yield enhanced structured agreements correlated to our stock price. In one such structure, we pay a fixed sum of cash upon execution of an agreement in exchange for the financial institution's obligations to pay either a pre-determined amount of cash or shares of our common stock depending on the closing market price of our common stock on the expiration date of the agreement. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our cash investment returned plus a yield substantially above the yield currently available for short-term cash investments. If the closing market price is at or below the pre-determined price, we will receive the number of shares specified at the agreement's inception. As the outcome of these arrangements is based entirely on our stock price and does not require us to deliver either shares or cash, other than the original investment, the entire transaction is recorded in equity.

The decision to enter into a yield enhanced structured agreement is based upon a comparison of the yields available in the financial markets for similar maturities against the expected yield to be realized per the structured agreement and the related risks associated with this type of arrangement. We believe the risk associated with these types of agreements is no different than alternative investments available to us with equivalent counterparty credit ratings. All counterparties to a yield enhancement program have a credit rating of at least Aa2 or A as rated by major independent rating agencies. For all such agreements that matured in the fourth quarter of fiscal 2009, the yields of the structured agreements were far superior to the yields available in the financial markets primarily due to the volatility of our stock price and the pre-payment aspect of the agreements. The counterparty is willing to pay a premium over the yields available in the financial markets due to the structure of the agreement.

In the fourth quarter of fiscal 2009, we entered into short-term yield enhanced structured agreements totaling $68.0 million with maturities of 30 days or less. We settled these agreements in the fourth quarter of fiscal 2009 and received $69.1 million in cash. In February 2010, we entered into two additional short-term yield enhanced structured agreements with maturities of 30 days or less totaling $98.0 million. Upon settlement of these agreements, we expect to receive $101.4 million in cash. However if upon settlement of the agreements our stock price is at or below the pre-determined price, we will receive 9.0 million shares of our common stock.

Line of Credit

In March 2009, we extended our line of credit with Silicon Valley Bank to March 2010 with a total available amount of $55.0 million. Loans made under the line of credit bear interest based upon the Wall Street Journal Prime Rate (3.25% as of January 3, 2010 and 3.25% as of December 28, 2008) or LIBOR plus 1.5% (1.75% as of January 3, 2010 and 2.96% as of December 28, 2008). 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 January 3, 2010, we were in compliance with all of the financial covenants. Our obligations under the line of credit are guaranteed and collateralized by the common stock of certain of our business entities. We intend to use the line of credit on an as-needed basis to fund working capital and capital expenditures. To date, there have been no borrowings under the line of credit.

In conjunction with certain guarantees, we issued irrevocable standby letters of credit in the aggregate amount of $47.0 million to secure payments under an equipment lease. As of January 3, 2010, the letters of credit have been reduced to $13.4 million. See "Lease Guarantees" under Note 19 for further discussion.

NOTE 16. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed using the weighted-average common shares outstanding. 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 and excludes all dilutive potential common shares when we are in a net loss position their inclusion would be anti-dilutive. Our dilutive securities primarily include stock options, restricted stock units, restricted stock awards, convertible debt and warrants.

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
	(In thousands, except per-share amounts)		
Net Income (Loss) per Share—Basic:			
Income (loss) from continuing operations	$ (150,424)	$ (319,262)	$ 366,862
Income from discontinued operations attributable to Cypress	—	34,386	16,057
Income from discontinued operations—noncontrolling interest, net of taxes	—	34,154	12,681
Noncontrolling interest, net of income taxes	(946)	(311)	(19)
Net income (loss)	(151,370)	(251,033)	395,581
Less income (loss) attributable to noncontrolling interest	946	(33,843)	(12,662)
Net income (loss) for basic computation attributable to Cypress	$ (150,424)	$ (284,876)	$ 382,919
Weighted-average common shares for basic computation	145,611	150,447	155,559
Net income (loss) per share—basic:			
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.36
Discontinued operations attributable to Cypress	—	0.23	0.10
Net income (loss) per share—basic	$ (1.03)	$ (1.89)	$ 2.46
Net Income (Loss) per Share—Diluted:			
Income (loss) from continuing operations	$ (150,424)	$ (319,262)	$ 366,862
Adjustments:			
Interest expense and related costs associated with the 1.25% Notes	—	—	5,759
Other	—	—	(717)
Income (loss) from continuing operations for diluted computation	(150,424)	(319,262)	371,904
Income from discontinued operations attributable to Cypress	—	34,386	16,057
Income from discontinued operations—noncontrolling interest, net of taxes	—	34,154	12,681
Noncontrolling interest, net of income taxes	(946)	(311)	(19)
Net income (loss)	(151,370)	(251,033)	400,623
Less income (loss) attributable to noncontrolling interest	946	(33,843)	(12,662)
Net income (loss) for diluted computation attributable to Cypress	$ (150,424)	$ (284,876)	$ 387,961
Weighted-average common shares	145,611	150,447	155,559
Effect of dilutive securities:			
Stock options, restricted stock units and restricted stock awards	—	—	8,288
1.00% Notes	—	—	2,282
1.25% Notes	—	—	4,455
Warrants	—	—	1,252
Weighted-average common shares for diluted computation	145,611	150,447	171,836
Net income (loss) per share—diluted:			
Continuing operations attributable to Cypress	$ (1.03)	$ (2.12)	$ 2.26
Discontinued operations attributable to Cypress	—	0.23	0.10
Net income (loss) per share—diluted	$ (1.03)	$ (1.89)	$ 2.36

Convertible Debt and Warrants:

The 1.00% Notes were convertible debt which required us to settle the principal value of the debt in cash and any conversion premiums in either cash or stock, at our election. In connection with the issuance of the 1.00% Notes, we entered into a convertible note hedge transaction. In addition, we entered into a warrant transaction in which we sold to the option counterparties warrants to acquire the same number of shares of our common stock underlying the 1.00% Notes. We apply the treasury stock method in determining the dilutive impact of both the 1.00% Notes and the warrants. In accordance with the relevant guidance, the convertible note hedge is excluded from the diluted earnings per share computation as it is anti-dilutive.

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		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Stock options, restricted stock units and restricted stock awards	83,689	103,250	27,820
1.00% Notes	841	77,852	—
Warrants	948	77,852	—

NOTE 17. EMPLOYEE BENEFIT PLANS

Key Employee Bonus Plan

We have a key employee bonus plan, which provides for incentive payments to certain key employees including all executive officers except the Chief Executive Officer. Payments under the plan are determined based upon certain performance measures, including our 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. We recorded total charges of $7.3 million under the plan in fiscal 2009, $6.2 million in fiscal 2008 and $10.7 million in fiscal 2007.

Performance Profit Sharing Plan

We have a performance profit sharing plan, which provides incentive payments to all our employees. The plan was adopted in fiscal 2006. Payments under the plan are determined based upon our earnings per share and the employees' percentage of success in achieving certain performance goals. We recorded total charges of $4.9 million under the plan in fiscal 2009, $5.2 million in fiscal 2008 and $6.7 million in fiscal 2007.

Performance Bonus Plan

In fiscal 2008, we established the performance bonus plan, which provides for incentive payments to executive officers and key employees who are recommended by our senior management and approved solely at the discretion of the Committee of the Board. Payments under the plan are determined based upon the attainment and certification of certain objective performance criteria established by the Committee. The sole participant in the performance bonus plan for fiscal 2009 and fiscal 2008 was our Chief Executive Officer. We recorded total charges of $0.5 million under the plan in fiscal 2009 and $0.6 million in fiscal 2008.

Deferred Compensation Plan

We have a deferred compensation plan, which provides certain key employees, including our executive management, with the ability to defer the receipt of compensation in order to accumulate funds for retirement on a tax-free basis. We did 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.

Under the deferred compensation plan the assets are recorded at fair value in each reporting period with the offset being recorded in "Other income (expense), net." The liabilities are recorded at fair value in each reporting period with the offset being recorded as an operating expense or income. As of January 3, 2010 and December 28, 2008, the fair value of the assets was $25.7 million and $20.2 million, respectively, and the fair value of the liabilities was $25.1 million and $20.5 million, respectively.

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

	Year Ended		
	January 3, 2010	December 30, 2007	December 30, 2007
		(In thousands)	
Changes in fair value of assets recorded in:			
Other income (expense), net	$ 5,150	$(10,643)	$1,138
Changes in fair value of liabilities recorded in:			
Cost of revenues	(516)	2,129	(679)
Research and development expenses	(1,454)	3,560	(782)
Selling, general and administrative expenses	(3,168)	5,437	(596)
Total income (expense), net	$ 12	$ 483	$ (919)

During fiscal 2003, we entered into an arrangement with a major financial institution, wherein we purchased a forward contract to hedge the impact of market changes of our 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, we recorded credits of $2.8 million related to the forward contract.

During fiscal 2007, we terminated the forward contract and received proceeds of $5.4 million from the settlement. In addition, we received proceeds of $1.2 million following the death of a plan participant.

Pension Plans

We sponsor defined benefit pension plans covering employees in certain of our international locations. We do not have pension plans for our United States-based employees. As of January 3, 2010 and December 28, 2008, projected benefit obligations totaled $4.7 million and $4.5 million, respectively, and the fair value of plan assets was $2.6 million and $1.9 million, respectively.

401(k) Plan

We sponsor a 401(k) plan which provides participating employees with an opportunity to accumulate funds for retirement. We do not make contributions to the 401(k) plan.

NOTE 18. INCOME TAXES

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

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
United States income (loss)	$ (182,858)	$ (295,359)	$ 341,553
Foreign income (loss)	38,288	(15,974)	30,915
Income (loss) from continuing operations before income taxes	(144,570)	(311,333)	372,468
Income tax benefit (provision):			
Current tax benefit (expense):			
Federal	(1,986)	(5,775)	—
State	(250)	(587)	(351)
Foreign	(3,618)	(2,564)	(7,005)
Total current tax expense	(5,854)	(8,926)	(7,356)
Deferred tax benefit:			
Foreign	—	997	1,750
Total deferred tax benefit	—	997	1,750
Income tax benefit (provision)	$ (5,854)	$ (7,929)	$ (5,606)

Income tax benefit (provision) differs from the amounts obtained by applying the statutory United States federal income tax rate to income (loss) before taxes as shown below:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Benefit (provision) at U.S. statutory rate of 35%	$ 50,930	$ 108,967	$ (130,364)
Foreign income at other than U.S. rates	5,967	(27,617)	12,786
Future benefits not recognized	(61,474)	6,970	—
Non-deductible executive compensation	(1,181)	—	—
SunPower tax sharing agreement	(1,154)	—	—
State income taxes, net of federal benefit	(250)	(587)	(228)
Tax credits	676	1,248	—
Alternative minimum tax	—	(23,677)	—
Recognition of prior-year benefits	—	85,820	102,455
Convertible bond interest	—	6,857	9,858
Non-deductible goodwill and bond tender losses	—	(185,071)	—
Reversal of previously accrued taxes	506	19,612	—
Other, net	126	(451)	(113)
Income tax benefit (provision)	$ (5,854)	$ (7,929)	$ (5,606)

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

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
Deferred tax assets:		
Credits and net operating loss carryovers	$ 140,812	$ 119,812
Excess of book over tax depreciation	15,206	20,739
Reserves and accruals	79,242	84,672
Deferred income	9,108	2,356
Total deferred tax assets	244,368	227,579
Less valuation allowance	(239,946)	(214,267)
Deferred tax assets, net	4,422	13,312
Deferred tax liabilities:		
Intangible assets arising from acquisitions	(4,422)	(12,619)
Total deferred tax liabilities	(4,422)	(12,619)
Net deferred tax assets (liabilities)	$ —	$ 693

As of January 3, 2010 and December 28, 2008, deferred tax assets of $239.9 million and $214.3 million, respectively, were fully reserved due to uncertainty of realization in accordance with the accounting guidance, under which current and long-term net deferred taxes have been netted to the extent they are in the same tax jurisdiction.

At January 3, 2010, we had U.S. federal net operating loss carryovers of approximately $478.4 million, which, if not utilized, will expire from 2024 through 2029. Of the $478.4 million, $29.0 million is subject to Section 382 limitation. When recognized, $270.8 million of the tax benefit will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision. We had state net operating loss carryovers of approximately $144.1 million which, if not utilized, will expire from 2011 through 2019. A portion of these net operating loss carryovers relate to recent acquisitions and are subject to certain limitations. We had U.S. federal tax credit carryforwards of approximately $97.3 million, which, if not utilized, will expire from 2018 through 2029, and state tax credit carryforwards of approximately $70.6 million, which currently do not have any expiration date. In addition, utilization of the net operating losses and tax credit carryovers may be limited if certain ownership changes occur subsequent to January 3, 2010.

We received tax deductions from the gains realized by employees on the exercise of certain non-qualified stock options for which the benefit is recognized as a component of stockholders' equity. Historically, we have evaluated the deferred tax assets relating to these stock option deductions along with its other deferred tax assets and concluded that a valuation allowance is not required for that portion of the total deferred tax assets that are considered more likely than not to be realized in future periods. To the extent that the deferred tax assets with a valuation allowance become realizable in future periods, we will have the ability, subject to carryforward limitations, to benefit from these amounts. When realized, the tax benefits of tax deductions related to stock options are accounted for as an increase to additional paid-in capital rather than a reduction of the income tax provision.

United States income taxes and foreign withholding taxes have not been provided on a cumulative total of $184.2 million and $143.2 million of undistributed earnings for certain non-United States subsidiaries as of January 3, 2010 and December 28, 2008, respectively, because such earnings are intended to be indefinitely reinvested in the operations and potential acquisitions of our international operations. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits). It is not practicable to determine the income tax liability that might be incurred if these earnings were to be distributed.

Our global operations involve manufacturing, research and development, and selling activities. Our operations outside the U.S. are in certain countries that impose a statutory tax rate both higher and lower than the U.S. We are subject to tax holidays in the Philippines and India where we manufacture and design certain of our products. These tax holidays are scheduled to expire at varying times within the next one and four years. Our tax benefit of these tax holidays for the year ended January 3, 2010 was $1.0 million which had an insignificant impact on earnings per share. Overall, we expect our foreign earnings to be taxed at rates lower than the statutory tax rate in the U.S.

Unrecognized Tax Benefits

We adopted the new accounting guidance as issued by the FASB related to unrecognized tax benefits on January 1, 2007. A reconciliation of unrecognized tax benefits is as follows:

(In thousands)	
Unrecognized tax benefits, as of January 1, 2007	$ 38,893
Increase based on tax positions related to fiscal 2007	4,760
Increase based on tax positions related to prior years	3,154
Unrecognized tax benefits, as of December 30, 2007	46,807
Decrease based on tax positions related to fiscal 2008	(14,251)
Decrease related to settlements with taxing authorities	(10,511)
Unrecognized tax benefits, as of December 28, 2008	22,045
Increase based on tax positions related to current year	17,775
Decrease related to settlements with taxing authorities	(506)
Unrecognized tax benefits, as of January 3, 2010	$ 39,314

As of January 3, 2010, December 28, 2008 and December 30, 2007, the amounts of unrecognized tax benefits that, if recognized, would affect our effective tax rate totaled $37.2 million, $20.4 million and $42.0 million, respectively.

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

- completion of examinations by the U.S. or foreign taxing authorities; and
- expiration of statue of limitations on our tax returns.

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses our tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which we do business. Currently management does not expect a material change in unrecognized tax benefits to occur during the next 12 months.

Classification of Interest and Penalties

Our policy is to classify interest expense and penalties, if any, as components of income tax provision in the Consolidated Statements of Operations. As of January 3, 2010, and December 28, 2008, and December 30, 2007, the amount of accrued interest and penalties totaled $6.4 million, and $4.4 million, and $4.6 million, respectively. We recorded interest and penalties of approximately $2.1 million, $(0.2) million and $1.4 million during fiscal 2009, 2008 and 2007, respectively.

Examinations by Tax Authorities

The following table summarizes our major tax jurisdictions and the tax years that remain subject to examination by such jurisdictions as of January 3, 2010:

Tax Jurisdictions	Tax Years
United States	2006 and onward
Philippines	2007 and onward
India	2005 and onward
California	2005 and onward

The IRS is currently conducting audits of our federal income tax returns for fiscal 2006, 2007, and 2008. As of January 3, 2010, no adjustments to the tax liabilities have been proposed by the IRS. However, the IRS has not completed their examination and there can be no assurance that there will be no material adjustments upon completion of their review. In addition, non-U.S. tax authorities have completed their examination of our subsidiary in India for fiscal years 2005 and 2006. As of January 3, 2010, the proposed adjustments are being appealed. We believe the ultimate outcome of this appeal will not result in a material adjustment.

While years prior to 2006 for the United States corporate tax return are not open for assessment, the IRS can adjust net operating loss and various credit carryovers that were generated in prior years and carried forward to 2006 and subsequent years.

Spin-Off of SunPower

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

SunPower ceased to be a member of our (1) consolidated group for federal income tax purposes and most state income tax purposes (in those states which require or allow the filing of a consolidated state income tax return based upon U.S. federal consolidation rules), as of June 6, 2006, and (2) remaining state combined group for state income tax purposes, as of September 29, 2008 (the date of the Spin-Off). To the extent that SunPower becomes entitled to utilize on its separate tax returns portions of those credit or loss carry forwards existing as of such dates, SunPower will pay us the tax effect, measured at 35% for federal income tax purposes, of the amount of such tax loss carry forwards so utilized, and the amount of any credit carry forwards so utilized. SunPower will pay these amounts to us in cash or in SunPower's shares, at SunPower's option. As of December 28, 2008, SunPower had $43.1 million of federal net operating loss carry forwards and $5.0 million of federal and state tax credits subject to payment to us under the tax sharing agreement which amounted to a potential obligation to Cypress of approximately $20.0 million. As of January 3, 2010, SunPower has utilized $43.1 million of federal net operating loss carryforwards and $1.4 million of state tax credits. Accordingly, in fiscal 2008 we recorded a receivable from SunPower in the amount of $16.5 million which was received in the fourth quarter of fiscal 2009. In connection with the Spin-Off (see Note 3), Cypress and SunPower entered into an amendment to the existing tax sharing agreement between the parties to address certain transactions that may affect the tax treatment of the Spin-Off and certain other matters. Under the amended tax sharing agreement, SunPower is required to provide us notice of certain transactions that could give rise to SunPower's indemnification obligation relating to taxes resulting from the application of Section 355(e) of the Internal Revenue Code or similar provision of other applicable law to the Spin-Off as a result of one or more acquisitions (within the meaning of Section 355(e)) of SunPower's stock after the Spin-Off.

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

NOTE 19. COMMITMENTS AND CONTINGENCIES

Lease Guarantees

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

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

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

In connection with the guarantees, we were granted options to purchase ordinary shares of Grace. At the time of entering into the guarantee and at the time of the option grants, we determined that the fair value of the guarantees and the options was not material to our consolidated financial statements. As of January 3, 2010, we updated our assessment of the likelihood that we would have to settle the outstanding lease payments and determined that it was not probable. As a result, we have not recorded any liability relating to the outstanding lease payments.

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

			Outstanding Rental Payments			Outstanding Irrevocable Letters of Credits			
				As of			As of		
Fiscal Year	Number of Guarantees	Lease Term of Equipment Under Each Guarantee	At Inception	December 28, 2008	January 3, 2010	At Inception	December 28, 2008	January 3, 2010	Grace Options Granted to Cypress
					(In thousands)				
2006	One	36 months	$ 8,255	$ 2,752	$ —	$ 6,392	$ 2,829	$ —	2,241
2007	Five	36 months	42,278	21,828	5,665	32,726	20,793	9,204	26,555
2008	One	36 months	10,372	7,778	3,457	7,918	7,010	4,206	11,524
			$ 60,905	$ 32,358	$ 9,122	$ 47,036	$ 30,632	$13,410	40,320

Indemnification Obligations

We are a party to a variety of agreements pursuant to which we may be obligated to indemnify another party to such agreements with respect to certain matters. Typically, these obligations arise in the context of contracts we have entered into, under which we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants or terms and conditions related to such matters as the sale and/or delivery of our products, title to assets sold, certain intellectual property claims, defective products, specified environmental matters and certain income taxes. In these circumstances, payment by us is customarily conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims and vigorously defend ourselves and the third party against such claims. Further, our obligations under these agreements may be limited in terms of time, amount or the scope of our responsibility and in some instances, we may have recourse against third parties for certain payments made under these agreements.

It is not possible to predict the maximum potential amount of future payments under these agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments we have made under these agreements have not had a material effect on our business, financial condition or results of operations. We believe that if we were to incur a loss in any of these matters, such loss would not have a material effect on our business, financial condition, cash flows or results of operations, although there can be no assurance of this.

Product Warranties

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

The following table presents our warranty reserve activities:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Beginning balance	$ 3,341	$ 3,074	$ 2,578
Settlements made	(9,015)	(7,759)	(4,357)
Provisions	8,825	8,026	4,853
Ending balance	$ 3,151	$ 3,341	$ 3,074

Operating Lease Commitments

We lease 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.

As of January 3, 2010, future minimum lease payments under non-cancelable operating leases were as follows:

(In thousands)	
2010	$ 8,207
2011	6,880
2012	6,035
2013	4,233
2014	1,204
2015 and Thereafter	5,107
Total	$ 31,666

Rental expenses totaled approximately $6.6 million, $8.2 million and $7.9 million in fiscal 2009, 2008 and 2007, respectively.

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.

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. The fair value analysis on the properties was performed by management with the assistance of independent appraisal firms.

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.

Litigation and Asserted Claims

In October 2006, we received a subpoena related to the Antitrust Division of the Department of Justice ("DOJ")'s investigation into the SRAM market. In December 2008, the DOJ closed its two year investigation without any charge or allegation brought against us. As a result of the DOJ's investigation, in October 2006, we, along with a majority of the other SRAM manufacturers, were named in numerous consumer class action suits that are now consolidated in the U.S. District Court for the Northern District of California. Despite the fact that the DOJ's investigation was closed without any allegation or charge brought against us, the civil cases remain active. The cases variously allege claims under the Sherman Antitrust Act and various state antitrust laws. The lawsuits seek restitution, injunction and damages in an unspecified amount. Direct and indirect purchaser classes have been certified, although the indirect purchaser class decision is currently up for appeal. Trial is tentatively scheduled for January 2011. We are also named in purported consumer antitrust class action suits in three provinces of Canada; however, those cases have not been materially active over the last two years. We believe we have meritorious defenses to these allegations asserted in these various cases and we intend to vigorously defend ourselves in each of these matters.

In May 2004, we were among four parties to be named in a trade secret misappropriation litigation filed by Silvaco Data Systems in Santa Clara, California Superior Court. On February 10, 2009, summary judgment was granted in our favor in this matter. Silvaco has appealed our victory. As of the date of this filing, the appeal has not been heard by the Court of Appeals. We believe we have meritorious defenses to these allegations and will vigorously defend ourselves in this matter.

On August 21, 2009, X-Point Technologies filed a single patent infringement case against us and 29 other defendants in the U.S. District Court in Delaware . The patent at issue covers X-Point's technology for data transfer between storage devices and network devices without the use of a CPU or memory. X-Point has made no specific demand for relief in this matter. We believe we have meritorious defenses to the allegations set forth in the complaint and will vigorously defend ourselves 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 the our own investigations, we believe the ultimate outcome of our current legal proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operation or cash flows. However, because of the nature and inherent uncertainties of the litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations or cash flows could be materially and adversely affected.

NOTE 20. SEGMENT, GEOGRAPHICAL AND CUSTOMER INFORMATION

Segment Information

We design, develop, manufacture and market a broad range of programmable system solutions for various markets including consumer, computation, data communications, automotive and industrial. We evaluate our reportable business segments in accordance with the accounting guidance. We operate in the following four 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.
Emerging Technologies and Other	Includes Cypress Envirosystems and AgigA Tech, Inc., both majority-owned subsidiaries of Cypress, the Optical Navigation Systems ("ONS") business unit, China business unit, foundry-related services and certain corporate expenses.

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

<u>Revenues:</u>

	Year Ended		
	January 03, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Consumer and Computation Division	$ 274,861	$ 315,718	$ 357,671
Data Communications Division	96,568	129,930	117,755
Memory and Imaging Division	288,246	312,410	330,305
Emerging Technologies and Other	8,111	7,658	15,866
Total revenues	$ 667,786	$ 765,716	$ 821,597

Income (Loss) from Continuing Operations Attributable to Cypress, before Income Taxes:

	Year Ended		
	January 03, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Consumer and Computation Division	$ (674)	$ (2,471)	$ 46,180
Data Communications Division	13,314	27,248	21,040
Memory and Imaging Division	31,872	30,857	41,240
Emerging Technologies and Other	(24,863)	(21,284)	(19,855)
Unallocated items:			
Stock-based compensation expense	(141,812)	(122,345)	(61,392)
Amortization of intangibles and other acquisition-related costs	(3,804)	(9,199)	(8,864)
Restructuring charges	(15,242)	(21,643)	(583)
Reduction in allowance for uncollectible SPAP loans	426	198	7,479
Gain on divestitures	—	9,966	17,958
Write off of debt issuance costs	—	(4,800)	(4,226)
Gain on sale of SunPower common stock	—	192,048	373,173
Gain (loss) on debt redemption	—	2,193	(2,927)
Impairment of goodwill	—	(351,257)	—
Interest and non-cash expense for convertible debt	(1,090)	(25,213)	(28,159)
Impairment related to synthetic lease	—	—	(7,006)
Impairment of investments	(2,549)	(13,355)	(1,903)
Other	(148)	(2,276)	313
Income (loss) from continuing operations attributable to Cypress, before income taxes	$ (144,570)	$ (311,333)	$ 372,468

Depreciation:

	Year Ended		
	January 03, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
Consumer and Computation Division	$ 20,912	$ 27,408	$ 33,531
Data Communications Division	7,309	11,186	11,459
Memory and Imaging Division	21,875	27,080	31,001
Emerging Technologies and Other	599	741	1,994
Total depreciation	$ 50,695	$ 66,415	$ 77,985

Geographical Information

The following table presents our total revenues by geographical locations:

	Year Ended		
	January 3, 2010	December 28, 2008	December 30, 2007
		(In thousands)	
United States	$ 113,009	$ 163,542	$ 223,276
Europe	79,864	114,922	96,851
Asia:			
China	162,664	188,658	61,447
Hong Kong	66,367	42,812	121,478
Taiwan	63,900	49,824	103,699
Rest of world	181,982	205,958	214,846
Total revenues	$ 667,786	$ 765,716	$ 821,597

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

	As of	
	January 3, 2010	December 28, 2008
	(In thousands)	
United States	$ 207,529	$ 225,180
Philippines	57,302	62,968
Other	7,789	8,641
Total property, plant and equipment, net	$ 272,620	$ 296,789

Customer Information

One global distributor accounted for 14% of our total revenues for fiscal 2009. Two distributors accounted for 13% and 11% of our total revenues for fiscal 2008. Two distributors accounted for 14% and 12% of our total revenues for fiscal 2007. There was no single end customer in fiscal 2009, 2008 or 2007 that accounted for more than 10% of total revenue.

NOTE 21. SUBSEQUENT EVENTS

Performance-Based Awards

In February 2010, the Committee of the Board established the milestones for approximately 4.6 million of outstanding performance-based awards for fiscal 2010. These performance based milestones include the achievement of certain performance results of our common stock appreciation target against the SOXX, certain levels of annual non-GAAP profit-before-taxes percentage, certain annual revenue growth and certain annual revenue growth in the PSoC® family. These awards are earned upon the Committee's certification that the specified market and/or performance milestones have been achieved. If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods.

The fair value of the market-condition milestone will be determined using a Monte Carlo valuation. The fair value of the shares with performance-related milestones will be the grant-date fair value of our common stock.

Line of Credit

In March 2010, we extended our line of credit with Silicon Valley Bank to March 2011 with a total available amount of $25.0 million. No amounts have ever been drawn under the line of credit. The principal objective of this line of credit was to support the Grace lease guaranty, discussed in Note 19, whose requirement has been reduced significantly from as much as $60.9 million to $9.1 million as of March 1, 2010.

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 January 3, 2010 and December 28, 2008 and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2010 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 January 3, 2010, 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 the accompanying 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 2 of Notes to Consolidated Financial Statements, the Company changed the manner in which it accounts for convertible debt instruments in fiscal 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 3, 2010

UNAUDITED QUARTERLY FINANCIAL DATA

	Three Months Ended			
	January 3, 2010	September 27, 2009 (3)	June 28, 2009 (3)	March 29, 2009 (3)
	(In thousands, except per-share amounts)			
Revenues	$ 193,974	$ 178,719	$ 155,784	$ 139,309
Gross margin	$ 94,920	$ 84,535	$ 57,112	$ 34,015
Income (loss) from continuing operations	$ 2,852	$ (19,656)	$ (45,285)	$ (88,335)
Income from discontinued operations and non-controlling interest, net of income taxes	(383)	(178)	(178)	(207)
Net income (loss)	2,469	(19,834)	(45,463)	(88,542)
Less net income (loss) attributable to non-controlling interest	(383)	(178)	(178)	(207)
Net income (loss) attributable to Cypress	$ 2,852	$ (19,656)	$ (45,285)	$ (88,335)
Net income (loss) per share–basic	$ 0.02	$ (0.13)	$ (0.32)	$ (0.66)
Net income (loss) per share–diluted	$ 0.02	$ (0.13)	$ (0.32)	$ (0.66)

	Three Months Ended			
	December 28, 2008 (2)(3)	September 28, 2008 (3)	June 29, 2008 (3)	March 30, 2008 (1)(3)
	(In thousands, except per-share amounts)			
Revenues	$ 165,073	$ 222,681	$ 209,580	$ 168,382
Gross margin	$ 60,473	$ 98,516	$ 100,902	$ 79,541
Income (loss) from continuing operations	$ (414,211)	$ 127,150	$ (1,544)	$ (30,657)
Income from discontinued operations and non-controlling interest, net of income taxes	2,362	22,773	31,051	12,043
Net income (loss)	(411,849)	149,923	29,507	(18,614)
Less net income (loss) attributable to non-controlling interest	3,171	11,942	13,652	5,078
Net income (loss) attributable to Cypress	$ (415,020)	$ 137,981	$ 15,855	$ (23,692)
Net income (loss) per share–basic:				
Continuing operations attributable to Cypress	$ (2.87)	$ 0.84	$ (0.01)	$ (0.19)
Discontinued operations attributable to Cypress	(0.01)	0.07	0.12	0.04
Net income (loss) per share–basic	$ (2.88)	$ 0.91	$ 0.11	$ (0.15)
Net income (loss) per share–diluted:				
Continuing operations attributable to Cypress	$ (2.87)	$ 0.79	$ (0.01)	$ (0.19)
Discontinued operations attributable to Cypress	(0.01)	0.07	0.11	0.04
Net income (loss) per share–diluted	$ (2.88)	$ 0.86	$ 0.10	$ (0.15)

Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

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

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

(2) During the fourth quarter the net loss includes an impairment of goodwill of $351.3 million.

(3) New accounting guidance requires disclosure of net income attributable to minority interests on the face of the consolidated statements of operations. The financial information above has been revised to include this disclosure. Adoption of this guidance had no impact on the reported operating results attributable to the Company's stockholders or reported earnings per share.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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 January 3, 2010. 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 January 3, 2010.

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 page 119 of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2009 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 2009.

On June 4, 2008, 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.

Quarterly Executive Incentive Payments

On February 25, 2010, Cypress's Compensation Committee of the Board of Directors (the "Compensation Committee") approved the incentive payments to our executive officers for the fourth quarter and annual portion of fiscal 2009 performance incentive plans. These payments were earned in accordance with the terms of our Key Employee Bonus Plan (the "KEBP"), the Performance Profit Sharing Plan (the "PPSP") and the Performance Bonus Plan (the "PBP").

The payments were determined based upon the financial performance of Cypress and each executive's performance. The performance measures under the KEBP include our earnings per share as well as individual strategic, operational and financial goals established for each executive, and the performance measures under the

PPSP include our earnings per share and the individual's percentage of success in achieving certain quarterly goals. The following table sets forth the cash payments to our Named Executive Officers (as determined in our Proxy Statement filed with the Securities and Exchange Commission on April 8, 2009) under the KEBP, the PPSP and the PBP in the fourth quarter of fiscal 2009:

Named Executive Officers	KEBP	PPSP	PBP
T.J. Rodgers, President and Chief Executive Officer	—	$10,495	$342,495
Christopher Seams, Executive Vice President, Sales, Marketing and Operations	$113,386	$ 7,714	—
Brad W. Buss, Executive Vice President, Finance and Administration and Chief Financial Officer	$ 96,910	$ 6,324	—
Paul Keswick, Executive Vice President, New Product Development	$ 17,948	$ 4,315	—
Norman Taffe, Executive Vice President, Consumer and Computation Division	$ 56,829	$ 5,175	—

Additionally, the Compensation Committee authorized quarterly and annual incentive payments under the KEBP and PPSP, totaling $419,256 and $28,981, respectively, to six other senior executive officers who are not Named Executive Officers.

Release of Second Half of 2009 PARS

In 2007, the Compensation Committee (the "Committee") of the Company's Board of Directors granted, under the Company's 1994 Stock Plan, performance-based restricted stock units ("PARS") to certain employees of the Company, including our Named Executive Officers. The PARS awarded in 2007 may be earned ratably over five years subject to performance milestones that are determined on at least a yearly basis.

On February 26, 2010, the Committee approved the performance milestone achievements for the second half of 2009. In connection with the Committee's determination of the achievement of the second half of the 2010 PARS performance milestones, the following shares were released to our Named Executive Officers:

Named Executive Officer	Target	Earned
T.J. Rodgers, President and Chief Executive Officer	329,618	263,693
Brad W. Buss, Executive Vice President, Finance and Administration and Chief Financial Officer	206,011	164,809
Christopher Seams, Executive Vice President, Sales and Marketing	164,809	131,847
Paul Keswick, Executive Vice President, New Product Development	164,809	131,847
Norman P. Taffe, Executive Vice President, Consumer and Computation Division	141,633	113,305

Setting of Performance Milestones of 2010 PARS

In February 2010, the Committee of the Board established the milestones for approximately 4.6 million of outstanding performance-based awards for fiscal 2010. These performance based milestones include the achievement of certain performance results of our common stock appreciation target against the SOXX, certain levels of annual non-GAAP profit-before-taxes percentage, certain annual revenue growth and certain annual revenue growth in the PSoC® family. These awards are earned upon the Committee's certification that the specified market and/or performance milestones have been achieved. If the milestones are not achieved, the shares are forfeited and cannot be earned in future periods.

The fair value of the market-condition milestone will be determined using a Monte Carlo valuation. The fair value of the shares with performance-related milestones will be the grant-date fair value of our common stock.

The following table sets forth our Named Executive Officers' target shares for the performance period subject to performance:

Named Executive Officer	Minimum	Target
T.J. Rodgers, President and Chief Executive Officer	0	659,236
Brad W. Buss, Executive Vice President, Finance and Administration and Chief Financial Officer	0	412,022
Christopher Seams, Executive Vice President, Sales and Marketing	0	329,618
Paul Keswick, Executive Vice President, New Product Development	0	329,618
Norman P. Taffe, Executive Vice President, Consumer and Computation Division	0	283,266

The target number of shares is the maximum that may be earned for the performance period.

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 SCHEDULE

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements:

2. Financial Statement Schedule:

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:

		Incorporated by References		
Exhibit Number	Exhibit Description	Form	Filing Date/ Period End Date	Filed Herewith
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. Jaggers, 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	
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	

Exhibit Number	Exhibit Description	Incorporated by References		Filed Herewith
		Form	Filing Date/ Period End Date	
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	
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	
2.16	Agreement and Plan of Merger, dated as of August 1, 2008, by and among Cypress Semiconductor Corporation, Copper Acquisition Corporation and Simtek Corporation.	8-K	8/1/2008	
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	
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	

Exhibit Number	Exhibit Description	Incorporated by References		Filed Herewith
		Form	Filing Date/ Period End Date	
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 GNPower 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	
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.	10-K	12/30/2007	
10.35	Amendment No. 5 to Loan and Security Agreement dated December 20, 2007 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	10-K	12/30/2007	
10.36	Guaranty, dated March 24, 2008, by and between Grace Semiconductor USA, Inc., CIT Technologies Corporation and Cypress Semiconductor Corporation.	10-Q	3/30/2008	
10.37	Form of Transaction Support Agreement by and among Cypress Semiconductor Corporation, Copper Acquisition Corporation and the individuals listed on the signatures pages thereto, dated as of August 1, 2008.	8-K	8/1/2008	
10.38	Amendment No. 1 to Tax Sharing Agreement, dated as of August 12, 2008, by and between Cypress Semiconductor Corporation and SunPower Corporation.	8-K	8/11/2008	
10.39	1994 Stock Plan, as amended and restated.	S-8	10/24/2008	
10.40	1999 Non-Statutory Stock Option Plan, as amended and restated.	S-8	10/24/2008	
10.41	Employee Qualified Stock Purchase Plan, as amended and restated.	S-8	10/24/2008	
10.42	International Microcircuits Inc. 2000 Nonstatutory Stock Option Plan.	S-8	10/24/2008	
10.43	Amendment No. 6 to Loan and Security Agreement dated December 18, 2008 by and between Silicon Valley Bank and Cypress Semiconductor Corporation.	8-K	12/17/2008	
10.44	Amended and Restated Loan and Security Agreement with Silicon Valley Bank dated March 1, 2010.	10-K	3/3/2010	X
21.1	Subsidiaries of Cypress Semiconductor Corporation.	10-K	3/3/2010	X
23.1	Consent of Independent Registered Public Accounting Firm.	10-K	3/3/2010	X
24.1	Power of Attorney (reference is made to page 127 of this Annual Report on Form 10-K).	10-K	3/3/2010	X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	10-K	3/3/2010	X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	10-K	3/3/2010	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.	10-K	3/3/2010	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.	10-K	3/3/2010	X

* Confidential treatment has been requested for portions of this exhibit.

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Charges (Releases) to Expenses/Revenues	Deductions	Balance at End of Period
		(In thousands)		
Allowance for doubtful accounts receivable:				
Year ended January 3, 2010	$ 777	$ 1,120	$ (539)	$ 1,358
Year ended December 28, 2008	$ 1,171	$ 358	$ (752)	$ 777
Year ended December 30, 2007	$ 1,706	$ 1,071	$ (1,606)	$ 1,171
Allowance for sales returns:				
Year ended January 3, 2010	$ 3,341	$ 8,825	$ (9,015)	$ 3,151
Year ended December 28, 2008	$ 3,074	$ 8,026	$ (7,759)	$ 3,341
Year ended December 30, 2007	$ 2,578	$ 4,853	$ (4,357)	$ 3,074
Allowance for uncollectible loans under the stock purchase assistance plan:				
Year ended January 3, 2010	$ 538	$ (378)	$ (51)	$ 109
Year ended December 28, 2008	$ 782	$ (198)	$ (46)	$ 538
Year ended December 30, 2007	$ 8,345	$ (7,479)	$ (84)	$ 782

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

Dated: March 3, 2010

By: /s/ BRAD W. BUSS

Brad W. Buss
Executive Vice President, Finance and Administration and Chief Financial Officer

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.

Signature	Title	Date
/s/ T. J. RODGERS **T. J. Rodgers**	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2010
/s/ BRAD W. BUSS **Brad W. Buss**	Executive Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	March 2, 2010
/s/ W. STEVE ALBRECHT **W. Steve Albrecht**	Director	March 2, 2010
/s/ ERIC A. BENHAMOU **Eric A. Benhamou**	Director	March 2, 2010
/s/ LLOYD A. CARNEY **Lloyd A. Carney**	Director	March 2, 2010
/s/ JAMES R. LONG **James R. Long**	Director	March 2, 2010
/s/ J. DANIEL MCCRANIE **J. Daniel McCranie**	Director	March 2, 2010
/s/ EVERT P. VAN DE VEN **Evert P. van de Ven**	Director	March 2, 2010

Exhibit 21.1

SUBSIDIARIES OF CYPRESS SEMICONDUCTOR CORPORATION

Name	Jurisdiction of Incorporation
AgigA Tech, Inc.	United States Of America
AgigA Tech (Mauritius) LLC Mauritius	United States Of America
Cypress Semiconductor Corporation	United States Of America
CY Holding One LLC	United States Of America
CY Holding Two LLC	United States Of America
CY Support S de RL de CV	Mexico
Cyland Corporation	Philippines
Cypress Manufacturing, Ltd.	Cayman Islands
Cypress Semiconductor (Luxembourg) Sarl	Luxembourg
Cypress Semiconductor (Mauritius) LLC	Mauritius
Cypress Semiconductor (Minnesota) Inc.	United States Of America
Cypress Semiconductor (Scandinavia) AB	Sweden
Cypress Semiconductor (Switzerland) Sarl	Switzerland
Cypress Semiconductor (Texas) Inc.	United States Of America
Cypress Semiconductor (Thailand) Co., Ltd.	Thailand
Cypress Semiconductor (UK) Limited	United Kingdom
Cypress Semiconductor Canada	Canada
Cypress Semiconductor Corporation (Belgium)	Belgium
Cypress Semiconductor GmbH	Germany
Cypress Semiconductor Holding One LLC	United States Of America
Cypress Semiconductor Holding Two LLC	United States Of America
Cypress Semiconductor International (Hong Kong) Limited	Hong Kong
Cypress Semiconductor International Sales B.V.	Netherlands
Cypress Semiconductor Intl Inc.	United States Of America
Cypress Semiconductor Ireland	Ireland
Cypress Semiconductor Italia S.r.l.	Italy
Cypress Semiconductor K.K. Japan	Japan
Cypress Semiconductor Korea Ltd.	Korea
Cypress Semiconductor Phil. Headquarters Ltd.	Cayman Islands
Cypress Semiconductor Procurement LLC	United States Of America
Cypress Semiconductor Round Rock, Inc.	United States Of America
Cypress Semiconductor SARL	France
Cypress Semiconductor Singapore Pte. Ltd	Singapore
Cypress Semiconductor Solutions S de RL de CV	Mexico
Cypress Semiconductor Taiwan	Taiwan
Cypress Semiconductor Tech. India Ltd.	India
Cypress Semiconductor Technology (Shanghai) Co., Ltd.	China
Cypress Semiconductor Technology Ltd.	Cayman Islands
Cypress Semiconductor World Trade Corp.	Cayman Islands
CypressEnvirosystems Inc.	United States Of America
Cypress Venture Fund I, L.L.C.	United States Of America
Cypress Semiconductor Holding Two LLC	United States Of America
Deca Technologies Inc.	United States Of America
In-System Design, Inc.	United States Of America
Simtek Corporation	United States Of America
Silicon Magnetic Systems, Inc.	United States Of America
Weida Semiconductor Limited	Hong Kong

Exhibit 23.1

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. 333-154748, 333-150484, 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 3, 2010 relating to the financial statements, financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California
March 3, 2010

Exhibit 31.1

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

I, T.J. Rodgers, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 3, 2010

By: /s/ T.J. Rodgers

T.J. Rodgers
President and Chief Executive Officer

Exhibit 31.2

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

I, Brad W. Buss, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: March 3, 2010

By: /s/ BRAD W. BUSS

Brad W. Buss
Executive Vice President, Finance and Administration and
Chief Financial Officer

Exhibit 32.1

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

I, T.J. Rodgers, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended January 3, 2010 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 3, 2010

By: /s/ T.J. RODGERS

T.J. Rodgers
President and Chief Executive Officer

Exhibit 32.2

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

I, Brad W. Buss, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Cypress Semiconductor Corporation for the year ended January 3, 2010 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 3, 2010

By: /s/ BRAD W. BUSS

Brad W. Buss
Executive Vice President, Finance and
Administration and Chief Financial Officer

March 29, 2010

Dear Fellow Stockholder:

You are cordially invited to attend Cypress Semiconductor Corporation's 2010 Annual Meeting of Stockholders. We will hold the meeting on Friday, May 14, 2010, at 10:00 a.m. Pacific Daylight Time, at our principal executive offices located at 198 Champion Court, San Jose, California 95134. We look forward to your attendance in person or by proxy at the meeting.

This proxy statement is being made available to our stockholders on or about April 1, 2010. Under rules adopted by the Securities and Exchange Commission, we are sending a Notice of Internet Availability of Proxy Materials to most of our stockholders. Stockholders who had previously elected to receive printed copies or electronic delivery of proxy materials will receive printed copies of the proxy materials or an e-mail. The Notice of Internet Availability of Proxy Materials contains instructions on how to access our 2010 Proxy Statement and 2009 Annual Report and vote using the Internet. The notice also includes instructions on how you can receive a paper copy of your proxy materials, including the Annual Report, Notice of Annual Meeting, the Proxy Statement, and a proxy card. If you receive your proxy materials by mail, the Annual Report, Notice of Annual Meeting, the Proxy Statement, and proxy card will be enclosed. If you receive your proxy materials via e-mail, the e-mail will contain voting instructions and links to the Annual Report and the Proxy Statement on the Internet, both of which are available at http://www.cypress.com/go/annualreport.

At this year's Annual Meeting, the agenda includes the following items:

Agenda Item	Board Vote Recommendation
1. The election of directors	"FOR"
2. The ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm	"FOR"

Please refer to the Proxy Statement for detailed information on each of the proposals and the Annual Meeting. Your vote is important, and we strongly urge you to cast your vote whether or not you plan to attend the Annual Meeting.

If you are a stockholder of record ("registered holder"), meaning that you hold shares directly with Computershare Investor Services, LLC, the inspector of elections will have your name on a list, and you will be able to gain entry to the Annual Meeting with a form of government-issued photo identification, such as a driver's license, state-issued ID card, or passport. Stockholders holding stock in brokerage accounts ("street name" or "beneficial holder") will need to bring a letter from their broker reflecting their stock ownership as of the record date, which is March 16, 2010.

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

Very truly yours,

T.J. Rodgers
President and Chief Executive Officer

2010 ANNUAL MEETING OF STOCKHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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CYPRESS SEMICONDUCTOR CORPORATION

NOTICE OF THE 2010 ANNUAL MEETING OF STOCKHOLDERS

TO ALL CYPRESS STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Cypress Semiconductor Corporation, a Delaware corporation, will be held on:

Date: Friday, May 14, 2010

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

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

Items of Business:

1. The election of 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 fiscal year 2010; and

3. 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. This Notice of Annual Meeting, 2009 Annual Report and our 2010 Proxy Statement and form of proxy are being made available to stockholders on or about April 1, 2010.

All stockholders are cordially invited to attend the Annual Meeting in person. Only stockholders of record at the close of business on March 16, 2010 (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 29, 2010

CYPRESS SEMICONDUCTOR CORPORATION

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THIS PROXY MATERIAL AND VOTING

Q: Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

A: In accordance with the rules of the Securities and Exchange Commission (the "SEC"), instead of mailing a printed copy of our proxy materials to stockholders, we are furnishing our proxy materials primarily over the Internet. Under the SEC rules, instead of a paper copy of our proxy materials, we mailed a Notice of Availability of Proxy Materials (the "Notice") to most of our stockholders to instruct you on how to access and review our proxy materials on the Internet. The Notice instructs you on how to submit your vote on the Internet and also contains instructions on how a stockholder may request a paper copy of our proxy materials, including this Proxy Statement, our 2009 Annual Report and a proxy card or voting instruction card.

Q: Why am I receiving these materials?

A: The Board of Directors (the "Board") of Cypress Semiconductor Corporation (sometimes referred to as "we", "us", "our", "the Company" or "Cypress") is providing these proxy materials to solicit your vote at the 2010 Annual Meeting of Stockholders ("Annual Meeting") and at any adjournment or postponement thereof. The Annual Meeting will be held on Friday, May 14, 2010, at 10:00 a.m. Pacific Daylight Time at our principal offices located at 198 Champion Court, San Jose, California 95134. The telephone number at this address is (408) 943-2600.

Q: Who may attend the Annual Meeting?

A: All stockholders and holders of proxies for those stockholders and other persons invited by Cypress may 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 if you are the direct or indirect owner of your shares as of March 16, 2010 (the "Record Date").

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 163,951,139 shares outstanding of Cypress's common stock, par value $0.01 per share.

The date of this proxy statement is March 25, 2010, and it was filed with the SEC and made available on the Internet on or about April 1, 2010.

Q: What may I vote on?

A: You may vote on all the items listed below:

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 2010; and
3. The transaction of such other business as may properly come before the Annual Meeting, or any adjournment or postponement thereof.

Q: What is the difference between a registered stockholder and a beneficial stockholder?

A: ***Registered Stockholder or Stockholder of Record: Shares Registered in Your Name***

If on March 16, 2010 your shares were registered directly in your name with the Company's transfer agent, Computershare Investor Services, LLC, then you are a registered stockholder or a stockholder of record. As a stockholder of record, you may vote in person at the Annual Meeting or vote by proxy. Shares held in a brokerage or bank account are not generally registered directly in your name.

Beneficial Stockholder: Shares Registered in the Name of a Broker or Bank

If on March 16, 2010 your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial stockholder of shares held in “street name” and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial stockholder, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the Annual Meeting unless you request and obtain a valid proxy from your broker or other agent.

Q: How do I vote?

A: Whether you hold your shares directly as the stockholder of record or beneficially in "street name", you may direct your vote without attending the Annual Meeting by proxy. Depending on how you hold your shares, you may vote your shares in one of the following ways:

Stockholders of Record: You may vote by proxy over the Internet or by telephone. Please follow the instructions provided in the Notice, or, if you requested printed copies of the proxy materials, on the proxy card you received, then sign and return it in the prepaid envelope. You may also vote in person at the Annual Meeting.

Beneficial Stockholders: Your bank, broker or other holder of record will enclose a voting instruction card for you to use to instruct them on how to vote your shares. Check the instructions provided by your bank, broker or other holder of record to see which options are available to you.

Q: What shares may be voted and how may I cast my vote for each proposal?

A: You may vote all shares you own as of the close of business on the Record Date. You may cast one vote per share of common stock 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 may 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 many votes are needed to approve each proposal?

A: For the election of directors, the seven director nominees receiving the highest number of "FOR" votes will be elected. With respect to all other proposals, we must receive a “FOR” vote from the majority of shares present and entitled to vote either in person or by proxy. If you “Abstain” from voting, it will have the same effect as an “Against” vote. If you hold your shares in “street name”, it is critical that you cast your vote if you want it to count in the election of directors. In the past, if you held your shares in “street name” and you did not indicate how you wanted your shares voted in the election of directors, your bank or broker was allowed to vote these shares on your behalf in the election of directors as they felt appropriate. Recent changes in regulation were made to take away the ability of your bank or broker to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank or broker how to vote in the election of directors, no votes will be cast on your behalf. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of the Company's independent registered public accounting firm.

Q: What is the quorum requirement?

A: A quorum of stockholders is necessary to hold a valid annual meeting. A quorum will be present if at least a majority of the outstanding shares are represented by proxy or by stockholders present and entitled to vote at the Annual Meeting. Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker or bank) or if you vote in person at the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the chairman of the annual meeting or holders of a majority of the votes present at the annual meeting may adjourn the Annual meeting to another time or date.

Q: How can I change my vote or revoke my proxy?

A: If you are a stockholder of record, you have the right to revoke your proxy and change your vote at any time before the Annual Meeting by (i) returning a later-dated proxy card, or (ii) voting again by Internet or telephone as more fully described on your Notice or 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 Notice, proxy or voting instructions 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?" on page 3) 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, 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: 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 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 e-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 can a stockholder request a copy of Cypress's Annual Report on Form 10-K filed with the SEC for fiscal year 2009?

A: A stockholder may 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 2009. Our Annual Report on Form 10-K for the fiscal year ended January 3, 2010, was filed with the SEC on March 3, 2010 and is also available at our web site at: http://www.cypress.com/go/annualreport.

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:

For stockholder proposals to be considered for inclusion in our 2011 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 December 1, 2010 in accordance with the requirements of Rule 14a-8. In addition, the Company's bylaws establish an advance notice procedure for stockholders who wish to present certain matters or nominate director candidates before or at an annual meeting of 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 2011 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 January 15, 2011 and no later than February 15, 2011. Any such proposal must contain the specific information required by the Company's bylaws. In the event the date of next year's annual meeting is moved more than 30 days before or 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 later 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, including Rule 14a-8 of the 1934 Securities Exchange Act regarding the inclusion of stockholder proposals in any Company-sponsored proxy material.

A submission by a stockholder must contain the specific information required in the Company's bylaws. If you would like a copy of Cypress's current bylaws, please write to Brad W. Buss, Corporate Secretary, 198 Champion Court, San Jose, California 95134.

Q: Where can I find the voting results of the Annual Meeting?

A: Cypress will announce preliminary voting results at the 2010 Annual Meeting and file a Current Report on Form 8-K announcing the final voting results after the Annual Meeting.

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 and desire or require to receive additional copies of the proxy materials, you may request a separate copy of these materials, including the Annual Report, at no cost to you by writing to Brad W. Buss, Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California 95134. The telephone number is (408) 934-2600. 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.

IMPORTANT INFORMATION REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2010 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 14, 2010.

Copies of this Proxy Statement and our 2009 Annual Report to stockholders are also available online at http://www.cypress.com/go/annualreport. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

PROPOSAL ONE

ELECTION OF DIRECTORS

A board of seven (7) directors is to be elected at the 2010 Annual Meeting. Proxies can only be voted for the number of nominees named in this Proxy Statement. 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	62	President and Chief Executive Officer of Cypress	1982
W. Steve Albrecht	63	Andersen Alumni Professor of Accounting, Marriott School of Management, Brigham Young University	2003
Eric A. Benhamou	54	Chairman of our Board, Chairman of the Board of 3Com Corporation	1993
Lloyd Carney	48	Chief Executive Officer, Xsigo Systems	2005
James R. Long	67	Consultant, Former Executive Vice President of Nortel	2000
J. Daniel McCranie	66	Chairman of the Board of ON Semiconductor and Virage Logic	2005
Evert van de Ven	60	Consultant, 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 founder, president, chief executive officer, and a director of Cypress Semiconductor Corporation. He sits on the board of directors of high-technology companies, including AgigA Tech (nvRAMs), Bloom Energy (fuel cells), Cypress Envirosystems (energy-saving systems), and SunPower Corporation (advanced solar cells). He is a member of the board of Dartmouth College, his alma mater. Mr. Rodgers was a Sloan scholar at Dartmouth, where he graduated with a double major in physics and chemistry. He attended Stanford University on a Hertz fellowship, earning a master's degree and a Ph.D. in electrical engineering. He managed the MOS memory design group at AMI from 1975 to 1980 before moving to Advanced Micro Devices (AMD), where he ran AMD's static RAM product group until 1982. As Cypress's founder, Mr. Rodgers has the benefit of the Company's complete history. This advantage, taken together with his expert technical and analytical skills, vast executive experience, and over four decades of experience in the semiconductor industry, make him uniquely qualified to be on our Board of Directors.

W. Steve Albrecht is the Andersen Alumni Professor of Accounting at the Marriott School of Management at Brigham Young University ("BYU"). He served as the associate dean of the school until July 2008. 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 becoming a professor, 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 also serves on the board of directors of SunPower Corporation. Until his resignation in 2009, he served on the board of directors of Red Hat and SkyWest Airlines. He is a former trustee of the Financial Accounting Foundation that provides oversight to the Financial Accounting Standards Board ("FASB") and the Governmental Accounting Standards Board ("GASB"). Mr. Albrecht holds a Bachelor of Science degree from Brigham Young University, a Masters degree in Business Administration and a Doctorate degree in Accounting from the University of Wisconsin. Mr. Albrecht's extensive experience with public and financial accounting matters, especially with respect to multi-national companies, makes him well-qualified to be on our Board of Directors.

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 is vice chairman of the board of governors of Ben Gurion University of the Negev. He is the chief executive officer of Benhamou Global Ventures, an investment firm he established. Mr. Benhamou holds a Master of Science degree from Stanford University's School of Engineering and a Diplôme d'Ingénieur from Ecole Nationale Supérieure d'Arts et Métiers, Paris. In addition to his engineering expertise, we believe Mr. Benhamou’s extensive experience managing public companies in the technology sector as well as his expertise in venture and other financial transactions make him well-qualified to be on our Board of Directors.

Lloyd Carney is the chief executive officer and member of the board of directors 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. Mr. Carney brings to our Board broad-based experience in the semiconductor and non-semiconductor industries. Mr. Carney holds a Bachelor of Science degree in Electrical Engineering Technology from Wentworth Institute and a Master of Science degree in Applied Business Management from Lesley College, Cambridge, Massachusetts. We believe Mr. Carney is well-qualified to be on our Board of Directors because he possesses significant executive, entrepreneurial and operational expertise.

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. In addition to his corporate strategy skills, we believe Mr. Long’s extensive executive experience, especially with public companies, makes him well-qualified to be on our Board of Directors.

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 and has served as a consultant since that time. 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. Mr. McCranie brings to us robust experience in operations, sales and execution in the semiconductor industry, and possesses a unique insight into Cypress’s core values and culture. Mr. McCranie holds a Bachelor of Science degree in electrical engineering from Virginia Polytechnic Institute and State University (Virginia Tech). We believe Mr. McCranie is well-qualified to be on our board due to his extensive sales and marketing experience, in-depth knowledge of the semiconductor industry and his leadership skills as evidenced by his executive positions.

Evert van de Ven has more than thirty (30) years of experience in the semiconductor industry, including engineering, managerial 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 and has served as a consultant since that time. Mr. van de Ven previously served on the board of directors at Matrix Integrated Systems. Mr. van de Ven brings to our Board his technical and operational experience and brings invaluable contributions through his attendance at various quarterly operational reviews for core divisions at Cypress. Mr. van de Ven holds a Master of Science degree from the University of Technology, Eindhoven, The Netherlands. Mr. van de Ven brings a tremendous amount of technical expertise and semiconductor industry knowledge to our board, and for these reasons we believe he is well-qualified to sit on our Board of Directors.

In addition to the biographical information above regarding each nominee’s specific experience, attributes, positions and qualifications, we believe that each of our director nominees has performed his duties with critical attributes such as honesty, integrity and an adherence to high ethical standards. Each of them has demonstrated strong business acumen and an ability to exercise sound judgment, as well as a commitment to the Company and its core values. Finally, we value their significant leadership and experience on other public company boards and board committees.

Required Vote

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 January 2, 2011, 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 by PricewaterhouseCoopers LLP for fiscal years 2009 and 2008 were pre-approved by the Audit Committee and were as follows:

Services	2009	2008
Audit Fees	$1,934,000	$2,229,000
Audit-Related Fees	$125,000	$392,000
Tax Fees	$1,061,000	$2,136,000
Total	$3,120,000	$4,757,000

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, audit work related to the spin-off of SunPower Corporation for the period during fiscal year 2008 when we consolidated their operations, assistance and review with other documents we filed with the SEC, and statutory audits required internationally.

Audit-Related Fees: Audit-related services principally include employee benefit plan audits, internal control consulting, SunPower spin-off 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, tax matters related to the spin-off of SunPower Corporation, 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 services, audit-related services, tax, 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 January 2, 2011.

☑ THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

CORPORATE GOVERNANCE

We continue to review our corporate governance policies and practices to ensure that they comply with the requirements or suggestions of various authorities in corporate governance and the best practices of other public companies. On November 12, 2009, we began listing our shares on NASDAQ Global Select Market and delisted from the NYSE. Our policies and practices reflect corporate governance initiatives that are in compliance with NASDAQ listing requirements and the rules of the SEC include the following:

- Our Board has adopted Corporate Governance Guidelines, with an objective to describe certain processes and procedures intended to provide reasonable assurance that directors, to whom our stockholders entrust the direction and success of the Company, make decisions in the best interest of the Company and its stockholders;
- Six of the seven directors standing for re-election at the Annual Meeting are independent of the Company and its management;
- The chairmanship of our Board is occupied by an independent director, and his position is separate from the position and role of our chief executive officer;
- The independent directors meet regularly without management present;
- All members of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee are independent directors;
- The charters of the Board committees clearly establish their respective roles and responsibilities;
- We have a Code of Business Conduct and Ethics that applies to all of our officers, directors and employees, and covers topics such as financial reporting, conflict of interest, insider trading, compliance with laws, rules and regulations, and other Company policies; and
- We have a hotline available to all employees, and our Audit Committee has procedures in place for the anonymous submission of any employee complaint, including those relating to accounting, internal controls, or auditing matters.

The Corporate Governance Guidelines document is posted on our web site at http://files.shareholder.com/downloads/ABEA-37EQD4/813980998x0x331879/c8beb9c8-5706-4584-88a8-f866616b650c/2009_CORPORATE_GOVERNANCE_GUIDELINES.pdf.

The Code of Business Conduct and Ethics is posted at http://files.shareholder.com/downloads/ABEA-37EQD4/813980998x0x331880/61be26f8-18dc-48d8-bf64-d07f136669c7/2009_Rev_clean_Code_of_Business_Conduct_and_Ethics.pdf.

BOARD STRUCTURE

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 SEC, the Board determines whether a director or a director nominee has a material relationship with Cypress (either directly or indirectly as a partner, stockholder or officer of an organization that has a relationship with Cypress). Each director or director nominee completed a questionnaire, with questions tailored to the rules of NASDAQ, 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 NASDAQ 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.

Executive Sessions

Executive sessions of independent directors are held before each regularly scheduled meeting of our Board and at other times as necessary and are chaired by the chairman of the Board. The Board's policy is to hold executive sessions without the presence of management, including the chief executive officer, who is the only non-independent director. Except for the Operations Committee, the committees of the Board also generally meet in executive session at the end of each committee meeting. Members of the Operations Committee provide feedback to management following their attendance at the Company's quarterly operations reviews.

Meeting Attendance

In fiscal year 2009, our Board held four (4) regularly scheduled meetings. Every director attended at least 75% of the number of Board meetings 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 2009 fiscal year. Mr. Benhamou presided over all executive sessions of our directors. Directors are expected, but not required to attend the annual meetings of stockholders. All of our directors attended the 2009 Annual Meeting of Stockholders and are expected to attend the 2010 Annual Meeting.

The Nominating and Corporate Governance Committee periodically 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. Through the process of identification and evaluation, the Nominating and Corporate Governance Committee seeks to achieve a balance of experience, knowledge, integrity and capability on the Board.

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 materials 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?" on page 4 hereof).

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 rules, whether or not a potential candidate was recommended by a security holder, the Board, management or other parties. 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 skill set, 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.

Nomination Criteria and Board Diversity

In considering whether to recommend any candidate for inclusion in the Board's slate of recommended director nominees, we believe that the skill set, backgrounds and qualifications of our directors, considered as a group, should provide a significant composite mix of diversity in experience, knowledge and abilities that will allow our Board to fulfill its responsibilities. Therefore, in recommending candidates for Board nomination, the Nominating and Corporate Governance Committee makes an assessment of each candidate, including candidates recommended by a stockholder, in light of the nomination criteria set forth in the Company's Corporate Governance Guidelines. This assessment includes the evaluation of skills, the individual's character and integrity, general business and semiconductor industry experience, direct experience in the management of a corporation that is a customer that buys from the semiconductor industry, leadership profile, strategic planning abilities and experience, aptitude in accounting or finance, expertise in domestic and international markets, industry knowledge, understanding of relevant technologies, communications and interpersonal skills, and ability and willingness to devote time as needed for Board services. The assessment is made in the context of the perceived needs of the Board from time to time.

Communications from Stockholders and Other Interested Parties

The Board will give appropriate attention to written communication on valid business 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, with the assistance of the corporate secretary and internal legal counsel, (1) are 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 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 addressing such communication to the Chairman of the Board of Directors, c/o Corporate Secretary, Cypress Semiconductor Corporation, 198 Champion Court, San Jose, California, 95134 or sending an e-mail to CYBOD@cypress.com.

INDEPENDENT DIRECTOR CONTACT

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.

BOARD LEADERSHIP STRUCTURE

Eric A. Benhamou serves as Chairman of our Board of Directors. Our Board's general policy, as stated in our Corporate Governance Guidelines, is that separate persons should hold positions of chairman of the Board and chief executive officer to enhance the Board's oversight of management. Our leadership structure enhances accountability of our chief executive officer to the Board, balances power on our Board and encourages balanced decision making. We also separate the roles in recognition of the differences in roles. While the chief executive officer is responsible for the day-to-day leadership of the Company and the setting of strategic direction, the chairman of the Board provides guidance to the Board, sets the agenda for Board meetings and presides over the meetings of the full Board and the meetings of the Board's non-management directors. The Board chairman also provides performance feedback on behalf of the Board to our chief executive officer.

BOARD'S ROLE IN RISK MANAGEMENT OVERSIGHT

The Board's role in the Company's risk oversight process includes receiving regular reports from members of senior management on areas of material risk to the Company, including operational, financial, legal and regulatory, human resources, employment, and strategic risks. The full Board (or the appropriate committee in the case of risks that are under the purview of a particular committee) receives these reports from the appropriate risk owner within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. When a committee receives the report, the chairman of the relevant committee reports on the discussion to the full Board during the committee reports portion of the next Board meeting if deemed significant. This enables the Board and its committees to coordinate the risk oversight role, particularly with respect to risk interrelationships. As part of its charter, the Audit Committee discusses our policies with respect to risk assessment and risk management. We routinely have at least one director attending strategic quarterly reviews of our operations, and these directors meet and share their findings with our Board.

RISK CONSIDERATIONS IN OUR COMPENSATION PROGRAMS

In early 2010, the Compensation Committee thoroughly reviewed our compensation policies and practices for all employees, including executive officers. As part of the risk assessment, the Compensation Committee reviewed our compensation programs for certain design features that have been identified by experts as having the potential to encourage excessive risk-taking such as compensation mix overly weighted toward annual incentives and unreasonable goals or thresholds. The Compensation Committee determined that, for all employees, our compensation programs encourage our employees to take appropriate risk and encourage behaviors that enhance sustainable value creation in furtherance of the Company's business, but do not encourage excessive risk. The Compensation Committee believes that because we closely link our variable compensation with attaining performance objectives, we are encouraging our employees to make decisions that should result in positive short-term and long-term returns for our business and our stockholders without providing an incentive to take unnecessary risks. The Compensation Committee, with the assistance of Buck Consultants, LLC, intends to continue, on an on-going basis, a process of thoroughly reviewing our compensation policies and programs to ensure that our compensation programs and risk mitigation strategies continue to discourage imprudent risk-taking activities.

BOARD COMMITTEES

The Board 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 2009 are described in the table below:

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Operations Committee
W. Steve Albrecht[1]	Chairman			
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				

The Audit Committee

The Audit Committee 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, including the implementation of the whistleblower policy;
- 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, 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://investors.cypress.com/documentdisplay.cfm?DocumentID=6355.

The Board has determined that all the members of the Audit Committee are independent as independence is defined under the rules the NASDAQ Marketplace Rule 5605. The Board determined that each member of the Audit Committee is financially literate and has accounting and/or related financial management expertise required under NASDAQ rules.

The Audit Committee consists of Messrs. Albrecht, Benhamou, Carney, and McCranie, and met eight (8) times in fiscal year 2009 and generally met in executive session with management, our internal audit team and PwC, our certified public accounting firm independently.

Our Audit Committee charter limits to three (3) the number of audit committees of public companies on which a Cypress Audit Committee member may serve without the review and approval of our Board. Our Board designated Mr. Albrecht as the "audit committee financial expert" in accordance with the requirements of the SEC and NASDAQ rules.

The responsibilities of our Audit Committee and its activities during fiscal year 2009 are described in the Report of the Audit Committee on pages 19 & 20 of this proxy statement.

In discharging its duties, the Audit Committee:

- reviews and approves the scope of the annual audit and the independent public accounting firm's 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;

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[1] Mr. Albrecht ceased to be a member of the Nominating and Corporate Governance Committee in 2009.

- 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 fees proposed by or paid to our independent registered public accounting firm;
- review and provide input to the risk assessment processes in the Company, which will form the basis of the annual audit plan;
- oversees the implementation of the whistleblower policy; and then
- 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 NASDAQ rules. 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, 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, revising in its discretion, and approving the annual merit and stock budgets for focal salary increases and equity grant awards for all eligible employees;
- reviewing the annual benefit changes made by the Company with respect to its employees;
- providing feedback to the chief executive officer on his performance;
- overseeing the stock plans of the Company's subsidiary companies;
- overseeing and monitoring executive succession planning for the Company; and
- periodic risk analysis of the Company's compensation policies and programs.

In discharging its duties, the Compensation Committee retains the services of compensation consultants in order to have independent, expert perspectives on matters related to executive compensation, Company and executive performance, equity plans and other issues. The Compensation Committee has the sole authority to determine the scope of services for these consultants and may terminate the consultants' services at any time. The fees of these consultants are paid by the Company. In 2009, the Compensation Committee retained the services of Buck Consultants, LLC for various compensation-related services, including comparing our director compensation with the compensation of directors of our peer group companies.

No officer of the Company was present during discussions or deliberations regarding that officer's own compensation. Additionally, the Compensation Committee sometimes meets in executive session with its independent consultant to discuss various matters and formulate certain final decisions, including those regarding the performance and compensation of the chief executive officer.

The Compensation Committee held seven (7) meetings during our 2009 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://investors.cypress.com/documentdisplay.cfm?DocumentID=6356.

The Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee consists of Messrs. Long and van de Ven. The Board has determined that the members of the Committee are independent as defined under the rules of NASDAQ. 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;
- develop, maintain and recommend to the Board a set of corporate governance principles;
- oversee the annual self-evaluation process of the Board and other Board committees;
- ensure that stockholder proposals, when approved, are implemented as approved; and
- make recommendations to the Board on Board and Board committee membership.

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 2009.

The Nominating and Corporate Governance Committee held three (3) meetings during fiscal year 2009. The charter for our Nominating and Corporate Governance Committee is posted on our web site at http://investors.cypress.com/documentdisplay.cfm?DocumentID=6357.

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 daily 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. The charter of the Operations Committee is posted on our web site at http://investors.cypress.com/documentdisplay.cfm?DocumentID=6358.

Printed copies of the Corporate Governance Guidelines document, the Code of Business Conduct and Ethics, and the charters of the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee, and the Operations Committee are also available to any stockholder upon written request to:

Brad W. Buss
Corporate Secretary
Cypress Semiconductor Corporation
198 Champion Court
San Jose, California 95134

COMPENSATION OF DIRECTORS

Prior to May 2009, we did not make any changes to our directors' cash compensation for two years. In 2009, the Committee retained the services of Buck Consultants, LLC, an employee benefits and compensation consulting firm, to assist it in evaluating director compensation and to update the Committee on executive compensation market trends. The table below shows the changes we made to various Board compensation commencing in May 2009.

CASH COMPENSATION		
Position	**Pre-May 2009**	**From May 2009**
Non-employee director retainer	$45,000	$50,000
Board chairman	$0	$30,000
Audit Committee chairman	$10,000	$20,000
Audit Committee member	$5,000	$15,000
Compensation Committee chairman	$7,500	$15,000
Compensation Committee member	$0	$10,000
Nominating and Corporate Governance Committee chairman	$7,500	$5,000
Nominating and Corporate Governance Committee member	$0	$5,000
Operations Committee	$2,500 per attendance to the Company's quarterly operations meetings	$2,500 per attendance to the Company's quarterly operations meetings

Non-Management Director Equity Compensation

Commencing in May 2009, upon their initial appointment to the Board, each non-management director is granted restricted stock units of the Company's common stock equivalent to three times the annual award of an incumbent non-employee director on the date of the acceptance of the director's appointment ("Initial Grant"). The Initial Grant vests annually over a period of three (3) years from the date of grant. Before May 2009, upon their initial appointment to the Board, each non-employee director was granted an option to purchase 329,617 shares of common stock ("Initial Grant"). The Initial Grant vested monthly over a period of three (3) years from the date of grant. The exercise price of the Initial Grant was the fair market value of our common stock on the date of grant, which is the date on which such individual first became a non-employee director.

Commencing in May 2009, if re-elected at the Company's annual meeting each non-employee director automatically receives additional, fully-vested restricted stock units of our common stock under the 1994 Stock Plan, that is equivalent in value to $175,000 based upon the fair market value on the date of the Company's regularly scheduled annual stockholders meeting ("Annual Grant"). If the re-elected incumbent director was appointed to the Board after the last annual stockholders meeting, then the Annual Grant is pro-rated based on the number of months from the date of the Initial Grant to the date of his or her re-election. Prior to May 2009, incumbent non-management directors who were re-elected at the Company's next annual meeting automatically received an additional 41,202 restricted stock units ("Annual Grant"). The Annual Grant vested fully on the date 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 Annual Grant was pro-rated based on the number of months from the date of the Initial Grant to the date of his or her re-election.

Non-Employee Director Stock Ownership Guidelines

The Board has established Non-Employee Director Ownership Guidelines pursuant to which non-employee directors are required to own 20,000 shares of common stock of the Company. Incumbent directors are expected to meet the ownership requirements within three years of establishment of the ownership requirements and new directors are required to meet the guidelines within three years of their appointment. All our directors meet the guidelines, including Mr. T.J. Rodgers, our chief executive officer, who is an employee director.

DIRECTOR COMPENSATION

Fiscal Year Ended January 3, 2010

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 ($)
W. Steve Albrecht	2009	81,250(3)	320,536	0	N/A	N/A	0	401,786
Eric A. Benhamou	2009	100,625(4)	320,536	0	N/A	N/A	0	421,161
Lloyd Carney	2009	68,750(5)	320,536	0	N/A	N/A	0	389,286
James R. Long	2009	65,625(6)	320,536	0	N/A	N/A	0	386,161
J. Daniel McCranie	2009	88,750(7)	320,536	0	N/A	$0	0	409,286
Evert van de Ven	2009	102,500(8)	320,536	0	N/A	N/A	0	423,036

(1) Amounts shown reflect the grant date fair value of the restricted stock units awarded to our directors in fiscal year 2009.

(2) No stock option awards were granted to our directors in fiscal year 2009.

(3) Amount includes $48,750, Board retainer fee, and $32,500 Audit Committee chairman and member fee.

(4) Amount includes $48,750 Board retainer fee, $22,500 for Board chairmanship, $12,500 Audit Committee member fee, and $16,875 Compensation Committee chairman and member fee.

(5) Amount includes $48,750 Board retainer fee, $12,500 Audit Committee member fee and $7,500 Compensation Committee member fee.

(6) Amount includes $48,750 Board retainer fee, $7,500 Compensation Committee member fee and $9,375 Nominating and Corporate Governance Committee chairman and member fee.

(7) Amount includes $48,750 Board retainer fee, $12,500 Audit Committee member fee, and $27,500 for attendance at our operations review as member of the Operations Committee.

(8) Amount includes $48,750 Board retainer fee, $3,750 Nominating and Corporate Governance Committee member fee, and $50,000 for attendance at our operations review as member of the Operations Committee.

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 January 3, 2010, 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 January 3, 2010. The Audit Committee reports on these meetings to our Board of Directors.

The charter of the Audit Committee is available at our web site at:

http://investors.cypress.com/documentdisplay.cfm?DocumentID=6355

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 2009 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 as 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 January 3, 2010, 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 2010.

Each member of the Audit Committee is independent as defined under the NASDAQ listing standards.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

W. Steve Albrecht, Chairman
Eric A. Benhamou
Lloyd Carney
J. Daniel McCranie

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, our chief financial officer and each of the three 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		**Percent[1]**
T.J. Rodgers[2]	15,070,892	9.20
W. Steve Albrecht[3]	225,543	*
Eric A. Benhamou[4]	285,725	*
Lloyd Carney[5]	174,986	*
James R. Long[6]	220,585	*
J. Daniel McCranie[7]	48,010	*
Evert van de Ven[8]	338,276	*
Named Executive Officers		
Brad W. Buss[9]	1,143,748	*
Paul Keswick[10]	1,169,733	*
Christopher A. Seams[11]	1,882,056	1.20
Norman P. Taffe[12]	655,059	*
All directors and executive officers at fiscal year-end as a group[13]	21,434,112	13.50
5% Stockholders		
FMR LLC [14] Edward C. Johnson 82 Devonshire Street Boston, Massachusetts 02109	23,360,396	15.00
BlackRock, Inc. [15] 40 East 52nd Street New York, New York 10022	8,780,344	5.64
T.J. Rodgers[16] 198 Champion Court San Jose, California 95134	15,479,481	9.19

* Less than 1%. See footnotes on the next page.

(1) The total number of shares outstanding as of the Record Date was 163,951,139. The percentage of ownership for each of our Named Executive Officers and directors is based on the number of shares outstanding as of the Record Date. The shares outstanding for our directors do not include the annual grant that they will receive on May 14, 2010 because we do not know the exact number of shares they will receive. On May 14, our non-employee directors will receive fully vested shares of our common stock equivalent to $175,000 calculated at the closing price of our common stock on May 14, 2010. The percentage for all directors and executive officers (as a group) is based on the number of shares outstanding as of 2009 fiscal year end; and the percentage reflected for entities with 5% ownership is based on the applicable form 13G or 13D filed with the SEC.

(2) Includes 5,015,433 shares of common stock held directly by Mr. Rodgers and options to purchase 8,684,829 shares of common stock, which are exercisable within 60 days of the Record Date. Also includes 47,010 shares of common stock held indirectly; and options to purchase 5,150 shares of common stock held indirectly by Mr. Rodgers. Also includes 1,318,470 unvested restricted stock issued to Mr. Rodgers in exchange for the performance-based restricted stock units which he tendered in connection with the Company's RSU Exchange Offer in 2008 in connection with the Spin-Off of SunPower Corporation. The shares of restricted stock will vest over the next two fiscal years subject to attaining performance milestones. The shares of restricted stock received by Mr. Rodgers are subject to the same performance vesting conditions as the tendered restricted stock units, adjusted to reflect the effect of the SunPower Spin-Off.

(3) Represents 30,300 shares of common stock held directly by Mr. Albrecht, beneficial ownership of 16,480 restricted stock units that will vest within 60 days of the Record Date and options to purchase 178,763 shares of common stock, which are exercisable within 60 days of the Record Date.

(4) Represents 59,680 shares of common stock held directly by Mr. Benhamou, beneficial ownership of 16,480 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 209,565 shares of common stock, which are exercisable within 60 days of the Record Date.

(5) Represents 25,000 shares of common stock held directly by Mr. Carney, beneficial ownership of 16,480 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 133,506 shares of common stock by Mr. Carney, which are exercisable within 60 days of the Record Date.

(6) Represents 62,980 shares of common stock held directly by Mr. Long, beneficial ownership of 16,480 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 141,125 shares of common stock, which are exercisable within 60 days of the Record Date.

(7) Represents 21,238 shares of common stock held directly by Mr. McCranie, beneficial ownership of 16,480 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 10,292 shares of common stock, which are exercisable within 60 days of the Record Date.

(8) Represents 46,200 shares of common stock held directly by Mr. van de Ven, beneficial ownership of 16,480 restricted stock units that will vest within 60 days of the Record Date, and options to purchase 275,596 shares of common stock, which are exercisable within 60 days of the Record Date.

(9) Represents 409,013 shares of common stock held directly by Mr. Buss, and options to purchase 734,735 shares of common stock, which are exercisable within 60 days of the Record Date.

(10) Represents 366,291 shares of common stock directly held by Mr. Keswick, and options to purchase 803,442 shares of common stock, which are exercisable within 60 days of the Record Date.

(11) Includes 365,613 shares of common stock held directly by Mr. Seams. Also includes options to purchase 1,516,443 shares of common stock, which are exercisable within 60 days of the Record Date.

(12) Includes 135,022 shares of common stock held directly by Mr. Taffe. Also includes options to purchase 520,037 shares of common stock, which are exercisable within 60 days of the Record Date.

(13) Includes 7,013,401 shares of common stock held directly or indirectly by our directors, executive officers, and their family members. Also includes options to purchase 12,772,624 shares of common stock exercisable as of January 3, 2010, by our directors, executive officers, and their family members and 1,648,087 unvested restricted stock issued to Mr. Rodgers in exchange for the performance-based restricted stock units which he tendered in connection with the Company's RSU Exchange Offer in 2008 in connection with the Spin-Off of SunPower Corporation. Of this amount, 329,617 shares earned in 2009 were released in February 2010 upon approval by the Compensation Committee of the Board that the required performance metrics were achieved. The remaining shares of restricted stock will vest over the next two fiscal years subject to performance. The shares of restricted stock received by Mr. Rodgers are subject to the same performance vesting conditions as the tendered restricted stock units, adjusted to reflect the effect of the SunPower Spin-Off.

(14) The ownership information set forth in the table is based on information contained in a statement on Schedule 13G/A filed on February 16, 2010, with the SEC by FMR LLC and Edward C. Johnson. FMR LLC and Edward C. Johnson have the sole power to vote or direct the vote of 1,600 shares and sole dispositive power with respect to 23,360,396 shares or 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 1, 2010, with the SEC by BlackRock, Inc. has shared voting and dispositive power with respect to 100 shares, sole voting and dispositive power with respect to 8,780,344 shares.

(16) The ownership information set forth in the table is based on information contained in a statement on Schedule 13D/A filed on March 29, 2010, with the SEC by Mr. Rodgers. Mr. Rodgers has shared voting and shared dispositive power with respect to 90,660 shares, sole voting and sole dispositive power with respect to 15,388,821 shares.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis ("CD&A") section discusses the principles underlying our policies and decisions concerning the compensation of our executive officers. In this section, we describe the manner and context in which compensation is awarded to and earned by our executive officers and provide perspective on the tables and narratives that follow. In this CD&A section, the terms "we," "our," and "us" refer to management, the Company and sometimes, as applicable, the Compensation Committee ("Committee") of the Company's Board of Directors (the "Board").

Description of Key Terms Used in this Section

Critical Success Factors ("CSFs"): CSFs are measurable quarterly and annual goals that, with the exception of our chief executive officer, are identified by our executive officers and approved by our chief executive officer in advance of each review period. Our chief executive officer's CSFs are submitted to, reviewed and approved by the Board. 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 and documented. At the end of each fiscal quarter, or fiscal year, as applicable, our executive officers "score" their CSFs based on the scoring parameters previously approved. This score is reviewed, and adjusted if necessary, and approved by our chief executive officer. Our chief executive officer's score is reviewed, and adjusted if necessary, and approved by the Committee. The specific CSFs designated for each 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 or the performance of the group that they directly manage.

Our cash bonus plans (KEBP, PBP and PPSP) are all subject to the attainment of performance milestones established by the Committee. In 2009, the Committee established performance milestones for the three plans based primarily on the Company attaining certain quarterly or and annual fully-diluted non-GAAP earnings per share ("non-GAAP EPS") milestones. In 2010, the Committee established performance milestones for all three plans based on a percentage of the Company's non-GAAP profit before taxes ("non-GAAP PBT%") (which excludes, among other things, certain items such as stock-based compensation, acquisition-related expenses, impairments to goodwill, gains or losses on divestiture, investment-related gains and losses, restructuring costs, minority interests and related tax effects). Even when the Company is profitable and non-GAAP PBT% is high, our executive officers' annual earnings under KEBP is capped at 200% of each executive officer's target bonus, and the PPSP is capped at 200% of one week's salary. Each plan's distinctions are described below. Commencing 2010, KEBP and PBP participants will no longer participate in the PPSP.

Key Employee Bonus Plan ("KEBP"): Eligible senior and otherwise high-performing employees, including our Named Executive Officers, except our chief executive officer, participate in KEBP. KEBP can pay out quarterly and annually and is a key part of our variable compensation structure. The objective of KEBP is to provide variable incentives to eligible participants. 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 2009 and 2010, the Committee placed our Named Executive Officers who are KEBP participants at the 80% target incentive level. Accordingly, a significant portion of our participating Named Executive Officers' overall cash is at risk and will only be paid out in connection with high performance. Our chief executive officer is not a KEBP participant.

In fiscal year 2009, the KEBP formula was based upon attaining a target non-GAAP EPS compared with the actual non-GAAP EPS achieved at the end of the applicable quarter. In 2010, the Committee replaced non-GAAP EPS with non-GAAP PBT% performance milestone target. This was done in order to better align our variable cash compensation with the overall 2010 focus of the Company, which is to improve profitability. In 2010, for each performance period, KEBP will only pay out if the Company's non-GAAP PBT% is achieved at a minimum target pre-determined by the Committee. Even when such minimum non-GAAP PBT% is achieved, the Compensation Committee pre-determines the percentage of KEBP that is paid out in each performance period, depending on the percentage by which the achieved non-GAAP PBT% exceeds the target minimum. There is no payout if the Company's non-GAAP PBT% is achieved below the targeted minimum. When the minimum targeted non-GAAP PBT% is achieved, the payout is in various ranges capped at 200% of the amount that a participant is eligible to earn. Additional details of the revised plan are included in our Current Report on Form 8-K filed with the SEC on March 19, 2010.

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 depending on their CSF score.

The principles above are embedded in the following KEBP formula established by the Committee, which reflects how each bonus is determined:

$$\textbf{Annual Base Pay} \times \frac{\textbf{Incentive Level\%}}{\textbf{5}} \times \textbf{Financial Performance Metric} \times \textbf{Payment Range} \times \textbf{CSF Score} \times \textbf{EO Factor}$$

To be eligible for a KEBP payment, the KEBP participant 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 within the first quarter following the applicable year.

Named Executive Officers: This refers to our chief executive officer, our chief financial officer and each of the three other most highly compensated individuals who served as our executive officers at fiscal year-end.

Performance Bonus Plan ("PBP"): The PBP was designed to maintain the corporate tax deduction under Section 162(m) of the Internal Revenue Code of 1986, as amended, for certain variable cash compensation paid to an executive officer to the extent such compensation exceeds $1 million in any one (1) year. Participants are executive officers whose target total cash compensation in the applicable fiscal year exceeds $1 million. Our chief executive officer was the only participant under the PBP in fiscal year 2009, and is currently the only participant. A PBP participant is not eligible for participation in the KEBP, or in 2010, the PPSP.

Under the PBP, participants are eligible to receive cash payments based upon the attainment and certification of certain objective performance criteria established by the Committee. The performance measures for any performance period are one or more 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 GAAP or in accordance with IASB Principles or which may be adjusted when established to exclude any items otherwise includable under GAAP or IASB Principles. The performance criteria may differ for each participant. Our Committee retains the discretion to reduce or eliminate any award that would otherwise be payable pursuant to the PBP. Therefore, even where the Company's goal has been achieved, the actual payout is subject to discretionary reduction based on the participant's CSF score for the period. The PBP, like KEBP, pays out quarterly and has an annual component.

Performance Profit Sharing Plan ("PPSP"): In 2009 all Cypress employees were eligible to participate in the PPSP, a quarterly 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. Participants in the KEBP and PBP are not eligible to participate in the PPSP effective January 2010.

Performance-based Restricted Stock Units ("PARS"): As part of our retention strategy for certain key positions needed to meet our business objectives, in 2007, we awarded performance-based restricted stock units to our executive officers and certain other key positions in the Company. The PARS may be earned ratably over a period of five (5) years, subject to achieving milestones established by the Committee each year, and might result in total compensation packages that are higher than targeted market positions if all performance-related milestones were achieved. None of our executive officers are eligible for any standard additional grants until 2010, except for our chief executive officer, Mr. Rodgers, who may be granted discretionary awards by the Committee.

Spin-Off: On September 28, 2008, we distributed our shares of SunPower Corporation Class B Common Stock to our stockholders (the "Spin-Off"). Cypress employees, consultants and non-employee members of the Board holding Cypress options and restricted stock units did not receive any SunPower shares in respect of their options and restricted stock units.

Spin-Off Ratio: Outstanding equity award (vested and unvested, including stock options, restricted stock and restricted stock units) and the remaining share pools under our equity plans were multiplied by 4.12022 (the "Spin-Off Ratio") to reflect the change in market value of the Company's common stock following the Spin-Off. The per share exercise price of outstanding Cypress stock options was divided by the Spin-Off Ratio for the same reason.

Questions and Answers Related To Our 2009 Executive Compensation

Q: How does the Compensation Committee operate?

A: The Committee is composed of Messrs. Eric Benhamou (Chairman), Lloyd Carney, and James Long, who are all independent directors. None of our employees serve on this Committee. The Committee has regularly scheduled meetings and also special meetings, as necessary to discharge its responsibilities to the Company. The Committee is authorized by its charter to retain the services of independent consultants in discharging its responsibilities. The Committee has not delegated any of its authority with respect to executive officer compensation and makes all final determinations regarding executive officer compensation.

Q: What is the role of the Compensation Committee in 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;
- approving performance objectives for our executive officers;
- formulating, approving, implementing, reviewing, and modifying the compensation of the Company's directors and executive officers;
- overseeing the administration of the Company's compensation plans;
- recommending to the Board for approval the Company's compensation plans, policies and programs;
- reviewing, revising in its discretion, and approving the annual merit and stock budgets for focal salary increases and equity grant awards for all eligible employees;
- reviewing and revising in its discretion the annual benefit changes made by the Company with respect to its employees;
- overseeing equity plans of the Company's subsidiaries; and
- performing periodic risk analysis of our compensation policies and programs.

Q: What is the role of the consultants retained by the Compensation Committee?

A: Our consultants assist the Committee in determining the appropriate executive compensation for management by comparing the current salary, bonus, and equity awards of our executive officers, including our chief executive officer, to comparable positions at peer group companies.

Q: What is the role of 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 Committee, our executive officers do not directly participate in determining their compensation. Our chief executive officer does not participate directly in setting his own compensation. However, our executive officers, including our chief executive officer, do participate indirectly by initially defining their quarterly and annual goals (subject to review, revision and approval), the achievement of which impacts their variable cash compensation under our cash incentive plans. Mr. Rodgers' salary, bonus and equity grants are determined by the Compensation Committee after considering the peer group analysis undertaken by our consultant, Mr. Rodgers' job performance, the responsibilities of his position, and the Company performance.

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) variable and at-risk cash compensation that can be earned under our KEBP and PBP; (iii) service-based equity awards and PARS; and (iv) benefit programs such as our deferred compensation plans. We also offer standard health benefits and an employee stock purchase program to all our employees. The Company does not provide a defined benefit pension plan, a match to employee contributions to our 401(k) plan, or any disclosable perquisites. In addition, the Company does not currently have any severance agreements or change of control agreements for its Named Executive Officers.

Q: What are the objectives of the Company's executive officer compensation programs and why does the Company choose to pay each element?

A: The compensation programs for our 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 ensure alignment of our executive officers and our stockholders interests through Company ownership.

Base salary, a critical element of executive compensation, provides our executive officers with a guaranteed level of monthly income and is set with the goal of attracting and retaining quality executives.

Our variable cash compensation programs are designed to create a direct and meaningful link between the Company's performance, individual performance and rewards. For example, the KEBP and PBP provide variable cash compensation based on each executive officer's individual performance as well as objective measures of Cypress's profitability. Our cash compensation programs are designed to motivate our executive officers to achieve targeted operational and financial results for the Company, such that our executive officers are rewarded when our Company performs well. In fiscal quarters when the Company does not perform well, payouts are not made under the plans. For example, in the first and second quarters of fiscal 2009, when the Company was unprofitable, our executive officers did not receive incentive cash compensation under either plan.

Our equity compensation is designed to reward our executive officers for achieving and exceeding short-term and long-term goals for the Company, and to enhance retention. Our PARS program is linked directly to the Company's achievement of certain targets, such that if a performance target is achieved, our executive officers are eligible to earn their PARS associated with such target, and if not, the shares are forfeited and cannot be earned in the future by our executive officers. In 2009, 211,246 shares were forfeited by our Named Executive Officers because the Company did not achieve some milestones at 100%. The Compensation Committee has the ability to make discretionary payments to executives, however, in 2009, no such discretionary payments were made to our Named Executive Officers.

We generally maintain an annual focal review process to determine employee (including our executive officers) compensation. By using a ranking system in the annual focal review, we reinforce the direct and meaningful link between individual performance and rewards. Therefore, the higher an executive officer is ranked, the more likely they will receive a greater percentage increase in both equity and cash compensation. We did not conduct a focal review for our executive officers in 2009 because of the global economic downturn which also affected our Company; therefore, our executive officers did not receive any base salary increases in 2009.

Q: How did the Company determine the amount for each element of compensation for your executive officers?

A: Our executive officers' base salaries generally approximate the 50th percentile of the base salaries for similar positions in our peer group companies. Our executive officers have not received a salary increase since 2008, when on account of a 2007 review, our executive officers other than Mr. Rodgers, received salary increases ranging between 3% and 5% to bring their base salary to the approximate median level among our peer group companies. In 2009 the Compensation Committee determined that no base salary adjustment was necessary because of cost controls and reductions implemented in late 2008 through 2009.

In 2009, a large portion of the cash compensation paid to our executive officers was variable, subject to achieving aggressive performance goals that must be achieved at both the corporate and individual CSF level. As is the case under our PPSP and KEBP, actual payouts under our incentive cash bonus plans may be higher or lower based on the Company's results and an individual's CSF score, such that each executive officer is motivated and challenged to achieve both short and long-term goals for the Company. In 2009, the incentive cash compensation target percentage for our executive officers remained the same as in previous years and was targeted to provide an above-median opportunity of 175% of base salary for our chief executive officer under the PBP, and 80% of base salary for all other executives under our KEBP program. This assumes very aggressive goals that are generally not fully achieved. No executive officer achieved the targeted total cash compensation in 2009.

The PARS award to our executive officers occurred in 2007 as part of our retention strategy for certain key positions needed to meet our Company's business objectives 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. In making those grants, the Committee considered roles that are larger in scope, complexity or accountability than standard market positions, as well as rewarding outstanding individual performance. The Committee appreciated that this grant, to be earned ratably over a period of five (5) years, might result in total compensation packages higher than targeted market positions if all performance-related milestones were achieved. Some of the PARS were earned in fiscal year 2009; however, a portion of the 2009 PARS were forfeited because the Company did not achieve each milestone at 100%. None of our executive officers received, or is eligible to receive any other standard equity award until 2010, except for Mr. Rodgers, to whom the Committee may grant discretionary awards under our 1994 Stock Plan. No discretionary awards were made to Mr. Rodgers in 2009.

The Committee's general policy is to pay approximately median base salary, but to place more emphasis on performance-based compensation (cash and equity) and how it is earned, such that a large percentage of our executive compensation is at risk. Therefore, if total compensation is adjusted for the risks and aggressiveness of our goals, our executive officers are not paid above our targeted median percentile when compared with our peer companies.

Q: Who were the peer group companies the Company benchmarked in 2009 for setting executive compensation?

A: The Committee did not conduct a market analysis of our peer group companies in 2009 for setting executive compensation because the Committee did not intend to make any changes with respect to 2009 compensation of our executive officers due to cost controls and reductions implemented in late 2008 and into 2009. However, the Committee reviewed our peer group companies for 2008 and made an adjustment to ensure that our peer group companies are companies that are (i) more representative of market pay practices used for executives in companies of similar size and scope, and/or (ii) more likely to recruit their employees from a similar pool as Cypress or even from Cypress, and vice-versa.

Our peer group companies for 2009 are listed in the table below:

Peer Group Companies in 2009	
Altera Corporation	Microchip Technology Inc.
Analog Devices, Inc.	National Semiconductor Corporation
Atmel Corporation	NVIDIA Corporation
Broadcom Corporation	ON Semiconductor Corporation
Integrated Device Technology Inc.	PMC-Sierra, Inc.
Linear Technology Corporation	SanDisk Corporation
LSI Corporation	Xilinx, Inc.

Q: What factors were considered by the Committee in determining the 2009 compensation of executive officers?

A: The Committee and management were satisfied with the total compensation levels and were focused on controlling the Company's overall expenses. Like all other employees, our executive officers were impacted by the Company-wide pay reduction implemented in the second quarter of 2009. As a result, the base salaries of our executive officers were reduced by between 9% and 11%.

There were no changes made to the targeted percentage of base salary that our executive officers could earn under the PBP, KEBP and PPSP.

As a result of the PARS awards granted in 2007, our executive officers are not eligible to receive any new standard equity awards until 2010, except that the Committee may make discretionary awards to Mr. Rodgers. Neither Mr. Rodgers nor any of our Named Executive Officers received a new grant in 2009.

Q: How were the Company's cash incentive and equity plans structured in 2009 for the executive officers?

A: *Cash Incentive Compensation*

Our chief executive officer participated in the PBP, and all other executive officers participated in the KEBP in 2009. Our executive officers, including our chief executive officer, participated in PPSP in 2009.

Our executive officers typically designate between ten (10) and fifteen (15) CSFs per quarter and for the year. In determining the amount of cash incentive pay payable under the KEBP and the PPSP, the Committee 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. In order to apply its discretion to reduce the maximum payout under the PBP, the Committee considers the participant's CSF score for the applicable period.

Under the PBP, for 2009, the Committee set objective quarterly and annual non-GAAP EPS targets that must be achieved by the Company. At the end of the measuring period, the Committee, considered Mr. Rodgers' CSF score for the quarter and applied discretion as provided under the PBP plan, to reduce the maximum payout to Mr. Rodgers by multiplying the target by his CSF percentage score.

The quarterly plan non-GAAP EPS targets, our actual non-GAAP EPS achievement, and the percentage of achievement against plan for our 2009 fiscal year are set forth in the following table:

The EPS targets were used under the PBP, PPSP and KEBP for all our executives in 2009.

2009 Fiscal Year Period	Plan Non-GAAP EPS	Non-GAAP EPS Achieved	Percentage Achievement
First Quarter	-0.235[(1)]	-0.219[(1)]	0%[(1)]
Second Quarter	-0.095[(1)]	-0.027[(1)]	0%[(1)]
Third Quarter	0.104	0.097	93.3%
Fourth Quarter	0.144	0.164	113.9%

Equity Plans:

In early 2009, the Committee set performance goals for the first performance period of 2009 (first and second quarters of fiscal year 2009), under which participants were eligible to earn up to half of their 2009 total targeted PARS. Of the targeted PARS for the first performance period, participants could earn up to 40% of their PARS if the non-GAAP operating expense for the first two quarters of fiscal year 2009 was contained at or below $166 million, excluding any non-planned, one-time or unusual transactions, with the payout adjusted downwards on a linear scale to 0% at a non-GAAP operating expense of $177 million. This milestone was achieved at 100%.

For the first performance period, participants could also earn up to 40% of their targeted PARS for the performance period if the common stock appreciation of Cypress was equal to or greater than the appreciation of the Philadelphia Semiconductor Sector Index ("SOXX") by 2.5 percentage points, with the payment adjusted downward on a linear scale to 0% if the Company's stock appreciation was equal to or trailed the SOXX by 5 percentage points for the measuring period calculated from the period commencing December 31, 2008 and ending June 30, 2009 based on the closing stock price. This milestone was achieved at 100%.

For all participants, the remaining 20% of the total targeted plan for the first performance period could be earned if the free cash flow for the Company was maintained at a negative $3 million, with the payout adjusted downward on a linear scale to 0% at a free cash flow of a negative $30 million, excluding any non-planned, one-time or unusual transactions. This milestone was achieved at 95.1%.

For the second performance period of 2009 (third and fourth quarters of fiscal year 2009), PARS participants could earn up to 40% of the target PARS for the second performance period if the common stock appreciation of Cypress was equal to or greater than the appreciation of the SOXX by 2.5 percentage points, with the payment adjusted downward on a linear scale to 0% if the Company's stock appreciation was equal to or trailed the SOXX by 5 percentage points, for the measuring period calculated from the period commencing June 30, 2009 and ending, December 31, 2009, provided that if Cypress's stock performance for calendar year 2009 is not less than 50% of the actual performance at the end of the second quarter of fiscal year 2009, then a payout of 50% of the milestone will be earned. This milestone was achieved at 50%.

[(1)] If the actual achieved non-GAAP EPS is greater than plan, but actual non-GAAP EPS achieved is less than 0 there is no payout under PBP, KEPB and PPSP.

For the second half of fiscal year 2009, PARS participants could earn up to 40% of the target PARS for the performance period, if the non-GAAP operating income for the performance period was equal to $41.3 million, with a payout adjusted downwards on a linear scale to 0% at $33 million. This milestone was achieved at 100 %.

PARS participants could earn the remaining 20% of their target PARS for the performance period, if the non-GAAP gross margin was equal to 51.1% calculated on a weighted average of the sum of non-GAAP gross margin for the third and fourth quarters of fiscal 2009. The payout for this milestone was adjusted downward on a linear scale to 0% at a gross margin of 44.2%. This milestone was achieved at 100%.

All earned shares are released following certification by the Compensation Committee that the applicable performance milestone has been achieved, net of all federal and state withholding tax requirements. Following final certification by the Committee, if the performance milestone is not achieved in full, the portion of the target shares for that particular performance milestone in the given period is forfeited and returned to the 1994 Stock Plan.

The following table sets forth the maximum targeted shares that could be earned in 2009 by our Named Executive Officers under PARS (that were awarded in 2007) and the actual payouts, as approved by the Compensation Committee for our Named Executive Officers and the percentage of 2009 PARS earned. The shares in the table below were adjusted for the Spin-Off.

Named Executive Officer	**2009 Maximum Shares Achievable**	**Total Number of Shares Earned in 2009**	**Percentage Achieved**
Mr. Rodgers	659,235	590,080	89.5
Mr. Buss	412,022	368,800	89.5
Mr. Keswick	329,617	295,040	89.5
Mr. Seams	329,617	295,040	89.5
Mr. Taffe	283,265	253,550	89.5

Of the 2009 PARS awarded to our Named Executive Officers, 211,246 shares were unearned at the end of the performance period and were forfeited and returned to the 1994 Stock Plan.

Q: Did the Compensation Committee grant new equity awards to our Named Executive Officers in 2009? If so, why?

A: No new equity awards were granted to our Named Executive Officers in 2009.

Q: What were the 2009 quarterly and annual performance goals in the CSFs of your Named Executive Officers?

A: In 2009, each of our Named Executive Officers set quarterly and annual goals against which they were measured for their performance-based bonus. For 2009, the annual goals for our chief executive officer included various product launches, annual revenue target of $640 million and cost saving goals and strategies to make it easier for customers to do business with Cypress.

Mr. Rodgers' quarterly CSFs included achieving certain revenue targets for specific products, product launches and profitability goals, implementing cost-reduction strategies, technology development, improving gross margin, ramping up new products of our subsidiaries, and developing and implementing programs to make it easier for customers to do business with Cypress.

In 2009, our chief financial officer, Mr. Brad Buss' quarterly goals included, developing and implementing various cost reduction plans for target groups in the Company, enhancing team and service efficiencies, implementing certain business systems, improving certain business processes, and successfully switching the listing of the Company's common stock from the NYSE to NASDAQ. His annual goals included implementing a plan for the Company's long-term capital structure, completing the resizing and redefinition of certain business units, and the successful closure of certain business locations.

For 2009, our executive vice president of new product development, Mr. Paul D. Keswick's annual CSFs focused on new product launch cycle time improvement, reduction of costs related to research and development, and new product launches. Mr. Keswick's quarterly goals included design milestones required to bring various new products to market on time, improvement of design management efficiencies, the provision of support for the ramping of various new products, and reduction of costs related to research and development.

In 2009, our executive vice president of sales and marketing, Mr. Christopher A. Seams' annual CSFs included efforts to increase market share for various product families. His annual goals also included penetrating new markets, and revenue growth. His quarterly goals included the improvement of sales and marketing methods, business processes and infrastructure to make it easier for customers to do business with Cypress.

Our executive vice president of the Consumer and Computation Division, Mr. Norman P. Taffe's quarterly and annual CSFs included implementing various cost-reduction strategies, developing new business, and exploring next generation for some of our existing products, and achieving specific product quality goals. Mr. Taffe's annual goals included various product launches.

Q: How difficult would it be for the Company's Named Executive Officers to achieve their CSFs and how likely was it for the Company to achieve the KEBP, PBP and PPSP profitability targets?

A: Our cash incentive plans have built-in features that make it fairly difficult to achieve 100% of the performance measures and therefore earn 100% of the payout under the various plans on a constant basis. The performance measures established by the Committee to determine 2009 payouts under the PBP, KEBP and PPSP are tied to the Company's actual non-GAAP EPS compared to the Company's plan non-GAAP EPS for fiscal 2009 and to the individual's CSFs. The non-GAAP EPS plan, as set by the Board for 2009, represented what the Company expected to achieve, and was determined by considering, among other things, the Company's historical results, then-current economic and market conditions and management's expectations for the future based on the information available to them at the time. Actual EPS achieved is the result of various factors, some of which are beyond the control of the Company.

Even where the non-GAAP EPS target is achieved, the actual payout to each KEBP participant depends on their CSF score for the performance period. For example, Norm Taffe's score on his annual goals resulted in a 50% payout for him and KEBP participants in his division. The performance measures targeted at both the corporate and individual levels are aggressive, difficult to achieve, but if achieved at 100% would exceed the Company's operational and financial expectations for the measuring period.

Also under the PBP and KEBP, there is a maximum amount that may be paid out to each participant. For example, when the Company is profitable and the Company's target is achieved and surpassed, our Named Executive Officers' annual earnings under the KEBP and PBP are capped at 200% of the targeted bonus, and for the PPSP at 200% of one week's salary. The cap has never been attained.

The CSF score of each executive officer also affects the payout to the executive officer and his entire organization under the PBP and KEBP. Under PBP and KEBP, a scoring of 65% and below with respect to the established CSF by an executive officer results in zero payout for the executive officer as well as his entire organization and in the case of our chief executive officer, impacts all Named Executive Officers as well as all other participants under KEBP or PBP. Under the PBP and 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, impacts all executive officers as well as all other participants under KEBP or PBP. For example, in 2009, Mr. Keswick, one of our Named Executive Officers, scored below the minimum on his annual CSFs and as a result, he and other KEBP participants in his organization did not earn an annual payout for 2009.

There were no payouts under any of our cash incentive bonus plans for the first and second quarters of 2009 due to the Company's financial performance. See page 33 for historical table for two-year performance percentage achievement by our Named Executive Officers under PARS, KEB, PBP and PPSP.

Q: What steps were taken by the Compensation Committee to ensure that the Company's incentive compensation did not provide unnecessary risk to the Company?

A: The Compensation Committee in cooperation with management took the following steps to ensure consistent leadership, decision-making and actions pertaining to executive compensation in a manner that requires innovation, execution and partnering without taking inappropriate or unnecessary risks:

- the financial performance objectives of our annual cash incentive program are the budgeted objectives that are reviewed and approved by both the Committee and the Board;
- we generally use the same financial performance measures for our annual cash incentive programs for our Named Executive Officers, other executive officers, non-officer executives (senior vice presidents and vice presidents) and non-executive employees;
- our variable compensation awards (quarterly cash incentives and long-term incentives in the form of stock options) are formulaic, with each formula linked directly to the performance of our Company;
- we balance short- and long-term decision-making with the annual cash incentive program and stock options that vest over a number of years; and

- we established executive compensation to encourage appropriate risk taking and discourage excessive risk taking.

Q: Have there been any other actions with respect to executive compensation since the end of 2009?

A**:** We reversed the reduction of our executive officers' pay effective from the end of the fourth quarter of 2009. A company-wide pay reduction was implemented in the second quarter of 2009. As a result, our executive officers' pay was reduced by a range of approximately 9% to 11% of their base salary and a corresponding percentage decrease impacted their KEBP, PBP and PPSP payouts in 2009. No cash bonuses were earned for the first and second quarters of 2009.

Since the end of fiscal year 2009, the Compensation Committee has determined the extent to which the Company achieved the 2009 performance milestones required to earn the remaining 50% of the 2009 PARS awards. The Compensation Committee has also set the performance targets for earning the 2010 PARS. See performance targets below under "What are the performance targets set for 2010 PARS?"

CSF goals have also been established, and the Board and the Committee have approved the financial performance metrics required for PPSP, KEBP, and PBP payouts. Commencing in the first fiscal quarter of 2010, PBP and KEBP participants are no longer eligible to participate in PPSP.

After consulting with management, the Compensation Committee replaced non-GAAP EPS with non-GAAP PBT% as a component for calculating payouts under the KEBP and PPSP. Accordingly, in 2010 the Company's minimum financial target required for payout under KEBP is a certain achievement of non-GAAP PBT% measured for the applicable period. Even when the minimum financial payout is achieved, the amount payable to KEBP participants will depend on the percentage by which the achieved non-GAAP PBT% exceeds the minimum non-GAAP PBT% target. KEBP will payout at percentage ranges capped at 200% of a participant's target payout. Participants under KEBP will no longer participate in the Company's other variable cash compensation programs. For the PBP to pay out in 2010, the Company must achieve a certain minimum non-GAAP PBT% threshold, and the payout is increased linearly up to 100%.

Effective the first quarter of 2010, PARS participants may now defer the delivery of their earned stock by making an irrevocable deferral election in accordance with the rules under Internal Revenue Code Section 409A. However, no Named Executive Officer elected to defer the receipt of their 2010 PARS shares.

Q: What, if any, were the differences in compensation policies with respect to individual Named Executive Officers in 2009?

A: Our compensation policies are similar for all employees, including our Named Executive Officers, with the following exceptions:

Mr. Rodgers was and is currently the sole participant in our PBP. Mr. Rodgers is eligible to earn up to 175% of his base salary under the PBP, while other Named Executive Officers can earn up to 80% of their base salary under the KEBP. Consistent with our compensation philosophy, the 175% 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.

As a result of the PARS granted by the Committee in 2007, our Named Executive Officers are not eligible to receive any additional standard equity grants until 2010, with the exception of Mr. Rodgers, who may be eligible for additional grants at the Committee's sole discretion. Mr. Rodgers did not receive any stock awards in 2009.

Q: What are the performance targets set for the 2010 PARS?

A: The Committee set four performance milestones for the 2010 total targeted PARS shares. The performance period is fiscal year 2010, except for the stock performance milestone which is measured as described below.

For all Named Executive Officers, 30% of the targeted PARS shares may be earned if the Company's common stock performance attains certain threshold levels compared with the Philadelphia Semiconductor Sector Index ("SOXX"), as measured from the closing price beginning December 31, 2009 to the closing price of December 31, 2010. If the performance milestone is achieved at a certain threshold level for the measurement period, the payout is at 100% and adjusts on a linear scale down to 0% payout if the Company's stock price performance is less than SOXX by a specified percentage point for the measurement period. If the Company's stock performance is equal to or greater than SOXX at the end of the measurement period, but the Company's stock return is negative for the measurement period then the payout for this milestone is set at 50%.

For all Named Executive Officers, 40% of the targeted PARS shares may be earned at 100% payout if the Company achieves a certain annual non-GAAP PBT% for the measurement period. The payout adjusts on a linear scale down to 0% if the annual non-GAAP PBT% for the measurement period is achieved at a certain level below target.

For all Named Executive Officers, 15% of the targeted PARS shares may be earned at 100% if the revenue growth for 2010 is achieved at a percentage level over the Company's revenue for fiscal 2009. The payout for this milestone adjusts on a linear scale down to 0% if the performance milestone is achieved at a certain level below target for the measurement period.

For all Named Executive Officers, 15% of the targeted PARS shares may be earned at the end of the measurement period if the Company achieves certain revenue levels related to the PSoC® family of products as compared to fiscal 2009. This milestone pays out at 100% if the Company achieves certain revenue levels during the measurement period, and adjusts on a linear scale down to 0% payout if revenue is achieved at a certain amount below target.

Q: How difficult will it be to attain the quarterly and annual 2010 financial targets under the PARS, KEBP, and PBP?

A*:* We cannot predict with any degree of certainty how difficult it will be to achieve the 2010 financial targets under PARS, KEBP, and PBP. Even where the Company's financial targets are achieved, it is also unpredictable how the CSF score of each executive officer will impact his actual payout, or how our chief executive officer's score will impact the actual payout.

Below is a historical table that shows a two-year performance percentage achievement by our Named Executive Officers under PBP, KEBP and PARS.

	2008						**2009**					
PBP	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**
T.J. Rodgers	120%	114%	33%	0%	0%	53%	0%	0%	94%	102%	81%	55%
	2008						**2009**					
KEBP	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**
T.J. Rodgers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
Brad Buss	113%	82%	27%	0%	0%	44%	0%	0%	86%	110%	93%	58%
Paul Keswick	100%	33%	26%	0%	0%	32%	0%	0%	91%	40%	0%	26%
Christopher Seams	113%	83%	28%	0%	0%	45%	0%	0%	91%	121%	93%	61%
Norman Taffe	102%	33%	30%	0%	0%	33%	0%	0%	90%	104%	33%	45%
	2008						**2009**					
PPSP	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**	**Q1**	**Q2**	**Q3**	**Q4**	**ANNUAL**	**AVERAGE**
T.J. Rodgers	126%	105%	53%	0%	N/A	71%	0%	0%	94%	102%	N/A	49%
Brad Buss	135%	92%	55%	0%	N/A	71%	0%	0%	86%	110%	N/A	49%
Paul Keswick	119%	75%	53%	0%	N/A	62%	0%	0%	91%	79%	N/A	43%
Christopher Seams	135%	94%	58%	0%	N/A	72%	0%	0%	91%	121%	N/A	53%
Norman Taffe	121%	74%	61%	0%	N/A	64%	0%	0%	90%	104%	N/A	49%

PARS			
	2008	**2009 1st Half**	**2009 2nd Half**
T.J. Rodgers	83%	99%	80%
Brad Buss	87%	99%	80%
Paul Keswick	66%	99%	80%
Christopher Seams	66%	99%	80%
Norman Taffe	66%	99%	80%

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 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 Committee. 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 the 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 certain other executive officers. This section also provides for certain exceptions to this limitation, including compensation that is performance-based within the meaning of Section 162(m). Our Performance Bonus Plan enables 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: None of our Named Executive Officers have contractual severance benefits.

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 2009?

A: Yes, the Compensation Committee may, at its discretion, award additional grants of restricted stock units to our chief executive officer. The Committee did not exercise that discretion in 2009. The Committee also has the discretion to reduce participant payouts under the PBP and reduce any awards made under our 1994 Stock Plan, including PARS awards, but did not exercise that discretion on the 2009 awards under the PBP or PARS.

Q: What retirement benefits does Cypress provide to its Named Executive Officers?

A: Cypress has two non-qualified deferred compensation plans and a 401(k) plan. Employees in the KEBP and PBP, including our executive officers are eligible to participate in the deferred compensation plans. All regular employees, including our executive officers 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. Cypress has no defined pension plan for its executive officers or employees.

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 2009.

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: What executive compensation policies is the Company planning to implement going forward?

A: The Company has no present intention to adopt any new compensation policies.

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 January 3, 2010.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Eric A. Benhamou, Chairman
Lloyd Carney
James R. Long

EXECUTIVE COMPENSATION

Summary Compensation Table [(1)]

The following table sets forth information regarding compensation earned during fiscal years 2009, 2008 and 2007 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. In 2008, we modified the outstanding employee equity awards in connection with the Spin-Off of SunPower Corporation in order to preserve the intrinsic value of the awards before and after the Spin-Off. In connection with the Spin-Off, outstanding employee equity awards vested and unvested were multiplied by the Spin-Ratio of 4.12022. The amounts shown in the Stock Awards and Option Awards column for 2008 include the incremental fair value of outstanding awards at the time of the Spin-Off. See table on page 38 for the impact of the Spin-Off on the compensation of our Named Executive Officers.

Name and Principal Position	Year	Salary[(2)] ($)	Bonus ($)	Stock Awards[(3)] ($)	Option Awards[(4)] ($)	Non-Equity Incentive Plan Compensation[(5)] ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total Compensation ($)
T.J. Rodgers President, Chief Executive Officer and Director	2009	594,221	0	6,104,336	0	536,952	0	0	7,235,509
	2008	623,074	100,000	4,581,189	12,060,007	577,968	0	0	17,942,238
	2007	643,266	0	3,705,600	0	809,153	0[(6)]	0	5,158,019
Brad W. Buss Executive Vice President, Finance & Administration, Chief Financial Officer	2009	302,726	0	3,792,160	0	147,649	0	0	4,242,535
	2008	342,445	0	2,469,981	2,638,313	124,804	0	0	5,575,543
	2007	309,880	0	2,052,000	0	209,809	0[(6)]	0	2,571,689
Paul D. Keswick Executive Vice President, New Product Development	2009	297,887	0	3,409,668	0	70,542	N/A	0	3,778,097
	2008	332,898	0	2,012,520	1,417,420	88,455	N/A	0	3,851,293
	2007	325,175[(7)]	0	1,650,240	0	167,234	N/A	0	2,142,649
Christopher A. Seams, Executive Vice President, Sales and Marketing	2009	340,393	0	3,409,668	0	173,446	0	0	3,923,507
	2008	381,219	0	1,996,548	1,408,761	142,053	0	0	3,928,581
	2007	356,013	0	1,650,240	0	233,904	0[(6)]	0	2,240,157
Norman P. Taffe[(8)] Executive Vice President Consumer and Computation Division	2009	265,552	0	2,930,168	0	102,338	0	0	3,298,058

(1) 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.

(2) Represents actual salary earned in fiscal years 2009, 2008 and 2007. The 2009 salary reflects a Company-wide pay reduction implemented commencing in the second quarter of 2009. The pay reduction was reversed at the beginning of the fourth quarter of fiscal year 2009 for all employees except for our executive officers, whose reversal occurred, at the beginning of fiscal 2010. Salary includes base pay and payment in respect of accrued vacation and holidays. There were no quantifiable perquisites or personal benefits to report at this time. Includes $23,661 paid to Mr. Rodgers, $9,644 paid to Mr. Buss, $12,724 paid to Mr. Keswick, $14,545 paid to Mr. Seams, and $11,339 paid to Mr. Taffe in connection with our Company's mandatory shut down. As part of our cost cutting measures, in November and December 2009, and January 2010, our offices were closed for some days and employees were required either to go without pay for the period, or use their paid-time-off if they wished to be paid during the shut down. Also reflects paid-time-off cash out by our Named Executive Officers.

(3) Reflects the fair value of the 2008 stock award to Mr. Rodgers and 2009 target performance-based restricted stock units award to our Named Executive Officers. In 2007, all of our Named Executive Officers received performance-based restricted stock units (PARS) that can be earned ratably over five years. The fair value for each year's targeted restricted stock units is determined when the Compensation Committee sets the performance milestones for the applicable year. The fair value amounts disclosed for 2009 also include the adjustments made in 2009 by our Compensation Committee in connection with 2008 PARS. The Compensation Committee in its review of the performance achievements under 2008 PARS exercised its discretion under our 1994 Stock Plan and adjusted the calculation methodology for certain performance milestones under 2008 PARS. In connection with said adjustment, the Company incurred a charge of $4,995,900 with respect to additional shares that our Named Executive Officers earned under 2008 PARS. Of the $4,995,900 charge, $1,308,400 was with respect to additional shares earned by Mr. Rodgers, $794,700 for Mr. Buss, $1,011,700 for each of Messrs. Keswick and Seams, and $869,400 for Mr. Taffe. None of our Named Executive Officers earned the maximum targeted shares for 2009. In 2009, Mr. Rodgers earned 590,080 shares, Mr. Buss earned 368,800 shares, and each of Messrs. Keswick and Seams earned 295,040 and Mr. Taffe earned 253,550. The amounts entered for 2008 reflect the incremental fair value of outstanding employee equity awards as of August 1, 2008, adjusted by the Spin-Ratio of 4.12022. See table on page 38 for impact of the Spin-Off on the compensation of our Named Executive Officers.

(4) No new stock option grants were made to our Named Executive Officers in 2009, 2008 and 2007. In connection with the SunPower Spin-Off, modifications were made by multiplying outstanding employee equity by the Spin-Ratio of 4.12022. Amounts entered for 2008 reflect the incremental fair value of outstanding employee equity awards as of August 1, 2008, adjusted by the Spin-Ratio of 4.12022. See table on page 37 for impact of the Spin-Off on the compensation of our Named Executive Officers.

(5) Includes bonus amounts earned under our Performance Bonus Plan ("PBP"), Key Employee Bonus Plan ("KEBP") and our Performance Profit Sharing Plan ("PPSP"). Bonuses under our PBP, 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 quarter earned, provided the employee is still employed by Cypress at the time of the payout, subject to conditions specified under the plan.

(6) Total column reflects revised amounts for Messrs. Rodgers, Buss and Seams for fiscal year 2007. In our 2008 Proxy we reflected a total amount that included earnings to Messrs. Rodgers, Buss and Seams in 2007 and 2008 under our Deferred Compensation plans, rather that above-market or preferential earnings in the applicable year.

(7) Includes gross amount of $17,376 related to a twenty-one year service cash award paid to Mr. Keswick. The actual amount paid to Mr. Keswick was after tax amount. All Cypress employees are eligible to receive service awards for continuous employment with Cypress for seven, fourteen and twenty-one years.

(8) Mr. Taffe was not a Named Executive Officer in 2007 and 2008.

IMPACT OF SPIN-OFF ADJUSTMENT ON EXECUTIVE COMPENSATION IN 2008

In connection with the Spin-Off, outstanding employee equity awards vested and unvested were multiplied by the Spin-Ratio of 4.12022. The amounts shown in the Stock Awards and Option Awards column for 2008 reflect the incremental fair value of the Spin-adjusted outstanding stock and option awards. The following table summarizes the effect to total compensation reported to our Named Executive Officers as a result of the Spin-Off.

		EFFECT OF SPIN-OFF ADJUSTMENT ON		
Name	**Total Compensation Reported ($)**	**Stock Award(s) ($)**	**Option Award(s) ($)**	**Pre Spin-Off Total Adjusted Compensation ($)**
T.J. Rodgers	17,942,238	N/A[1]	(12,060,007)	5,882,231
Brad Buss	5,575,543	(170,381)	(2,638,313)	2,766,849
Paul Keswick	3,851,293	(159,720)	(1,417,420)	2,274,153
Christopher Seams	3,928,581	(143,748)	(1,408,761)	2,376,072
Norman Taffe	N/A	N/A	N/A	N/A

(1) Mr. Rodgers did not have any outstanding unvested stock award as of August 1, 2008 when the compensation charge was calculated.

The next two tables show all plan-based awards granted to the Named Executive Officers during fiscal year 2009. 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 January 3, 2010

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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	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	659,235	659,235	N/A	N/A	N/A	4,795,936
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	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	329,618	412,022	N/A	N/A	N/A	2,997,460
Paul D. Keswick Executive Vice President, New Product Development	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	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	263,694	329,617	N/A	N/A	N/A	2,397,968
Christopher A. Seams Executive Vice President, Sales and Marketing	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	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	263,694	329,617	N/A	N/A	N/A	2,397,968
Mr. Norman P. Taffe Executive Vice President. Consumer and Computation Division	Q1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q3	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Q4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	Annual	N/A	N/A	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	226,612	283,265	N/A	N/A	N/A	2,060,754

(1) There are no outstanding future payments under our Performance Bonus Plan (“PBP”) or Key Employee Bonus Plan (“KEBP”). All amounts earned under our PBP or 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 on page 40 for actual amounts paid to our Named Executive Officers under the PBP, KEBP and PPSP.

(2) In 2007, we granted performance-based restricted stock units to certain employees in senior management positions, including our Named Executive Officers, under our 1994 Stock Plan. The performance-based stock awards vest ratably over a five-year period if the performance milestones are met.

Performance milestones are set by the Compensation Committee of the Company's Board of Directors. The Compensation Committee also determines if the performance milestones have been achieved. Mr. Rodgers' maximum targeted restricted stock award for fiscal year 2009 was 659,235. Mr. Buss' maximum targeted restricted stock unit award for fiscal year 2009 was 412,022 in the aggregate. Each of Messrs. Keswick and Seams had a maximum target to earn 329,617 restricted stock units in fiscal year 2009, and Mr. Taffe has a maximum target to earn 283,265 restricted stock units in 2009.

(3) Reflects the grant date fair value of the 2009 PARS for our Named Executive Officers and stock awards to Mr. Rodgers in 2009. The PARS were awarded in 2007 and 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. No one achieved the maximum amount in 2009. The grant date fair value reflects the total fair value for the 2009 1st half PARS and 2nd half PARS on the dates that the Compensation Committee set the performance milestones for each performance period.

GRANTS OF PLAN-BASED AWARDS (NON-EQUITY)

Fiscal Year Ended January 3, 2010

Name and Principal Position	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ("KEBP"/"PBP")			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ("PPSP")		
		Threshold ($)	Earned/ Paid ($)	Target (Plan) ($)	Threshold ($)	Earned/ Paid ($)	Target (Plan) ($)
T.J. Rodgers	Q1	N/A	0	187,600	N/A	0	0
President, Chief Executive Officer	Q2	N/A	0	187,600	N/A	0	0
and Director	Q3	N/A	175,498	187,600	N/A	6,964	7,444
	Q4	N/A	191,008	187,600	N/A	10,495	10,308
	Annual	N/A	151,487	187,600	N/A	N/A	N/A
Total			**517,993**	**938,000**		**17,459**	**17,752**
Brad W. Buss	Q1	N/A	0	47,628	N/A	0	0
Executive Vice President,	Q2	N/A	0	47,628	N/A	0	0
Finance and Administration,	Q3	N/A	40,868	47,628	N/A	3,548	4,134
Chief Financial Officer	Q4	N/A	52,616	47,628	N/A	6,324	5,725
	Annual	N/A	44,294	47,628	N/A	N/A	N/A
Total			**137,778**	**238,140**		**9,872**	**9,859**
Paul D. Keswick	Q1	N/A	0	46,351	N/A	0	0
Executive Vice President,	Q2	N/A	0	46,351	N/A	0	0
New Product Development	Q3	N/A	42,194	46,351	N/A	3,663	4,024
	Q4	N/A	18,371	46,351	N/A	4,315	5,571
	Annual	N/A	0	46,351	N/A	N/A	N/A
Total			**60,565**	**231,756**		**7,977**	**9,595**
Christopher A. Seams	Q1	N/A	0	52,912	N/A	0	0
Executive Vice President,	Q2	N/A	0	52,912	N/A	0	0
Sales and Marketing	Q3	N/A	48,166	52,912	N/A	4,181	4,593
	Q4	N/A	64,178	52,912	N/A	7,714	6,360
	Annual	N/A	49,208	52,912	N/A	N/A	N/A
Total			**161,552**	**264,559**		**11,895**	**10,953**

Norman P. Taffe Executive Vice President, Consumer and Computation Division	Q1	N/A	0	41,362	N/A	0	0
	Q2	N/A	0	41,362	N/A	0	0
	Q3	N/A	37,112	41,362	N/A	3,222	3,590
	Q4	N/A	43,056	41,362	N/A	5,175	4,971
	Annual	N/A	13,774	41,362	N/A	N/A	N/A
Total			**93,941**	**206,810**		**8,396**	**8,562**

OUTSTANDING EQUITY AWARDS

Fiscal Year Ended January 3, 2010

Name and Principal Position	Option Awards[(1)]					Stock Awards[(2)]			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock Unvested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)
T.J. Rodgers President, Chief Executive Officer and Director	1,236,066	0	0	4.06	03/16/11	0	0	0	0
	1,648,088	0	0	5.63	12/14/10	0	0	0	0
	1,442,077	0	0	5.18	01/02/14	0	0	0	0
	1,369,973	72,104	0	3.53	02/25/15	0	0	0	0
	2,927	101	0	8.83	02/25/15	0	0	0	0
	5,129	177	0	3.53	02/25/15	0	0	0	0
	1,565,683	0	0	2.77	02/03/15	0	0	0	0
	1,225,765	525,328	0	3.53	06/30/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	1,648,087 [(3)]	17,403,798
Brad W. Buss Executive Vice President, Finance and Administration, Chief Financial Officer	206,010	103,006	0	3.70	08/15/15	0	0	0	0
	431,229 [(4)]	123,607 [(4)]	0	3.70	08/15/15	0	0	0	0
	85,700	46,147	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	17,580	185,645	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	1,030,055 [(5)]	10,877,380
Paul D. Keswick Executive Vice President, New Product Development	206,011	0	0	4.06	03/16/11	0	0	0	0
	206,011	0	0	5.63	12/14/10	0	0	0	0
	18,541	0	0	1.79	03/27/13	0	0	0	0
	247,213	0	0	4.76	10/23/13	0	0	0	0
	24,721	12,361	0	3.53	02/25/15	0	0	0	0
	80,343	43,263	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	16,482	174,050	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	824,044 [(6)]	8,701,905
Christopher A. Seams Executive Vice President, Sales and Marketing	164,808	0	0	4.09	10/08/11	0	0	0	0
	593,311	0	0	4.09	10/08/11	0	0	0	0
	370,819	0	0	1.83	04/11/13	0	0	0	0
	19,365	0	0	4.16	08/22/13	0	0	0	0
	370,819	0	0	5.18	01/02/14	0	0	0	0
	273,994	14,421	0	3.53	02/25/15	0	0	0	0
	72,309	38,936	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	14,833	156,636	0	0
	N/A	N/A	N/A	N/A	N/A	N/A	N/A	824,044[(6)]	8,701,905
	39,142	0	0	5.18	07/09/11	0	0	0	0
	36,669	0	0	5.38	07/16/11	0	0	0	0

Name and Principal Position	Option Awards[1]					Stock Awards[2]			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock Unvested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)
Norman P. Taffe Executive Vice Consumer and Computation Division	37,081	0	0	4.09	10/08/11	0	0	0	0
	41,202	0	0	4.76	10/23/13	0	0	0	0
	6,180	3,091	0	3.53	02/25/15	0	0	0	0
	5,150	5,151	0	3.33	06/08/15	0	0	0	0
	232,105	35,709	0	3.94	09/06/15	0	0	0	0
	6,867	16,481	0	3.44	12/08/15	0	0	0	0
	74,987	40,379	0	3.99	10/27/16	0	0	0	0
	N/A	N/A	N/A	N/A	N/A	15,382	162,434	0	0
	N/A	N/A	N/A	N/A	N/A	0	0	708,162 [6]	7,478,191

(1) All stock option grants described in this table were awarded under our 1994 Stock Plan. The numbers reflect adjustments made, pursuant to which existing stock options awards were multiplied by the Spin-Off Ratio of 4.12022 to reflect the change in market value of the Company's common stock following the distribution to the Company's stockholders of SunPower Corporation Class B common stock. Except as noted under footnotes (5) 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. The remaining unexercised options held by our Named Executive Officers vest, subject to employment, as follows:

Grant Date	Vest Date	T.J. Rodgers	Brad Buss	Paul Keswick	Christopher Seams	Norman Taffe
02/25/05	04/01/10	72,104	N/A	12,361	14,421	3,091
02/25/05	02/25/10	101	N/A	N/A	N/A	N/A
02/25/05	02/25/10	177	N/A	N/A	N/A	N/A
06/08/05	05/09/10	N/A	N/A	N/A	N/A	5,151
08/15/05	08/15/10	N/A	103,006	N/A	N/A	N/A
08/15/05	08/15/11	N/A	123,607	N/A	N/A	N/A
09/06/05	08/22/10	N/A	N/A	N/A	N/A	35,709
12/08/05	12/08/10	N/A	N/A	N/A	N/A	16,481
06/30/06	06/30/11	525,328	N/A	N/A	N/A	N/A
10/27/06	10/01/11	N/A	46,147	43,263	38,936	40,379

(2) All restricted stock unit and restricted stock awards described in this table were made under the 1994 Stock Plan. The numbers reflect adjustments made, pursuant to which existing stock option awards were multiplied by the Spin-Off Ratio of 4.12022 to reflect the change in market value of the Company's common stock following the distribution to the Company's stockholders of SunPower Corporation Class B common stock ("Spin-Off"). Restricted stock units awarded 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. Restricted stock units that are not performance based vest over time and are subject to forfeiture under the 1994 Stock Plan.

(3) In 2007, Mr. Rodgers was awarded 3,296,176 spin-adjusted shares of performance-based restricted stock units, 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. The number in the column represents the balance of shares of restricted Cypress Common Stock distributed to Mr. Rodgers pursuant to the Offer to Exchange Restricted Stock Units for Restricted Stock, dated August 22, 2008, as amended ("RSU Exchange Offer"). Mr. Rodgers received a number of restricted shares of Cypress common stock determined by multiplying the tendered restricted stock units by the conversion ratio of 4.12022. The conversion ratio reflects the ratio of market prices of Cypress common stock before and after the Spin-Off. The restricted Cypress common stock received by Mr. Rodgers is subject to the same performance vesting conditions as the tendered restricted stock units, adjusted to reflect the effect of the SunPower Spin-Off. 329,617 shares were eligible to be earned during the second half of 2009 performance period. 1,318,470 shares of restricted stock will vest over the next two years, subject to performance.

(4) 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.

(5) Represents spin-adjusted number of the remaining performance-based restricted stock units awarded to Mr. Buss in 2007, which vest ratably over the remaining two and half years if the performance metrics are met. Performance milestones are set annually by the Compensation Committee of the Company. Mr. Buss' maximum target for 2009 was 412,022 restricted stock units. Mr. Buss did not receive any other awards in 2009 and is not eligible to receive any further standard awards until 2010.

(6) Represents spin-adjusted number of the remaining performance-based restricted stock units awarded to Messrs. Keswick, Seams and Taffe in 2007, which vest ratably over the remaining two and half years if the performance milestones are met. Performance milestones are set annually by the Compensation Committee of the Company. Each of Messrs. Keswick and Seams had a maximum target of 329,617 restricted stock units in 2009, and Mr. Taffe had a maximum target of 283,265 in 2009. Our Named Executive Officers did not receive any other awards in 2009 and are not eligible to receive any further awards until 2010.

OPTION EXERCISES AND STOCK VESTING

Fiscal Year Ended January 3, 2010

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	1,236,066	6,157,834	876,271	6,683,583
Brad W. Buss	125,000	847,930	569,365	4,340,301
Paul D. Keswick	416,142	2,175,367	388,140	3,076,870
Christopher A. Seams	283,058	2,405,193	387,316	3,068,770
Norman P. Taffe	87,577	428,754	334,168	2,650,186

(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.

(2) Amount shown reflects total number of shares that vested in 2009. The actual amount released to the Named Executive Officers was net of shares withheld to pay the taxes due upon vesting. The actual shares received by Named Executive Officers were substantially less due to required federal and state withholding taxes.

NON-QUALIFIED DEFERRED COMPENSATION

Fiscal Year Ended January 3, 2010(1)

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 ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
T.J. Rodgers	589,906	0	729,075	0	3,956,923
Brad W. Buss	14,304	0	8,755	0	128,713
Paul D. Keswick	0	0	0	0	0
Christopher A. Seams	0	0	73,058	50,000	308,866
Norman P. Taffe	17,361	0	61,527	0	241,612

(1) Amounts in the table represent contributions, aggregate earnings and withdrawals to our Named Executive Officers under our Deferred Compensation Plans (I) and (II) in 2009. There are no guaranteed payments under our deferred compensation plans.

OTHER DISCLOSURES

Compensation Committee Interlocks and Insider Participation

During fiscal year 2009, 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 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.

Any related person transaction will be disclosed in the applicable SEC filing as required by the rules of the SEC. For purposes of these procedures, "related person" and "transaction" have the meanings contained in Item 404 of Regulation S-K.

Indebtedness of Executive Officers

In 2001, prior to the Sarbanes-Oxley Act of 2002 and before Mr. Seams became an officer subject to Section 16(b) of the Securities Exchange Act of 1934, as amended, the Company loaned to Mr. Seams an aggregate 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 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, 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 of the forms they filed to comply with Section 16(a) requirements.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, all Section 16(a) filing requirements were complied with during fiscal 2009.

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

Brad W. Buss
Corporate Secretary

Dated: March 29, 2010

EMERGING TECHNOLOGIES

In 1992, T.J. Rodgers wrote in his book "No Excuses Management" that he wanted Cypress to be a "Federation of Entrepreneurs," a company that renewed itself by launching internal startups to take Cypress into new businesses. SunPower and Cypress Microsystems, the inventor of PSoC, are the two biggest successes of our internal startups, now called the "Emerging Technology Division" (detailed below).

OVATION OPTICAL NAVIGATION SOLUTIONS

Powered by PSoC, Cypress's OvationONS™ (Optical Navigation System) is the world's first programmable laser navigation system-on-chip, and the industry's most accurate and lowest-power navigation solution. This optical navigation sensor delivers fast and precise tracking on multiple surfaces. Key applications include mice, keyboards, handsets, portable media players, digital still cameras and camcorders, gaming controllers, netbook computers, and white goods. The served market is about $400 million in size today, and expected to grow to more than $1 billion per year by 2014.

Cypress's OvationONS™ laser-based optical navigation sensor chip (below, left) and module (below, right) enable cursor control in a variety of systems by shining a laser toward the fingertip and tracking its movement as shown in the illustration (left).

AGIGA TECH

AgigA Tech produces the highest density, high-speed nonvolatile memories available. These memories protect mission-critical data in RAID and other storage systems, as well as networking, gaming, automotive, industrial and embedded systems. At up to 16 gigabits, its flagship product, AGIGARAM™, is the highest-capacity NVRAM available. AgigA Tech serves a $2 billion market, growing to $4 billion by 2013.

CYPRESS ENVIROSYSTEMS

Cypress Envirosystems produces devices that improve energy efficiency. One example is this Wireless Pneumatic Thermostat (WPT), which automates the control of legacy pneumatic heating systems using the Internet plus an RF link. Cypress Envirosystems' WPT can replace $1.2 billion in pneumatic thermostats (the most common in the U.S.) and pay for itself in four months with reduced energy consumption.

CHINA BUSINESS UNIT

Centered in Shanghai, Cypress's China Business Unit (CBU) designs and produces semiconductor solutions for the China marketplace. CBU's big successes so far are the PSoC "Lithium" chips that have captured 30% of the eBike market (No. 1 marketshare) and the "Neon" chip that puts PSoC plus waterproof CapSense into white goods.

CYPRESS INSIDE

PSoC's extraordinary flexibility puts Cypress inside thousands of the world's most unique and innovative products.

CYPRESS INSIDE THE TOUCHSCREEN REVOLUTION: PSoC-based TrueTouch not only powers the touchscreens of modern handsets, but also enables them to do CapSense, light sensing and other system overhead functions that are simply not available in competing touchscreen-only chips. We expect Cypress to become No. 1 in the touchscreen IC market in 2010.

CYPRESS
PERFORM

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